HOW TO FINANCE A BUSINESS

202 METHODS OF RAISING CAPITAL & USING CREDIT TO DEVELOP A BUSINESS

HOW TO FINANCE A BUSINESS

WHERE AND HOW TO GET FUNDS —HOW TO USE THE BANK—PARTNERSHIPS AND STOCK ISSUES—SUCCESS FROM SMALL CAPITAL—FINANCING IN A CRISIS—HANDLING INVESTMENTS —MONEY LEAKS AND SAVINGS —PLANNING TO MAKE ENDS MEET

202 PROVED METHODS OF RAISING CAPITAL AND USING CREDIT

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Part I

WHERE TO GO FOR MONEY

Where and How to Borrow

MONEY—or the use of money—is bought and sold like flour or cutlery. If you recognize that it is credit which enables you to buy money—if you make the lender secure of payment—you can purchase whatever funds you need.

To do so, however, requires expert purchasing ability.

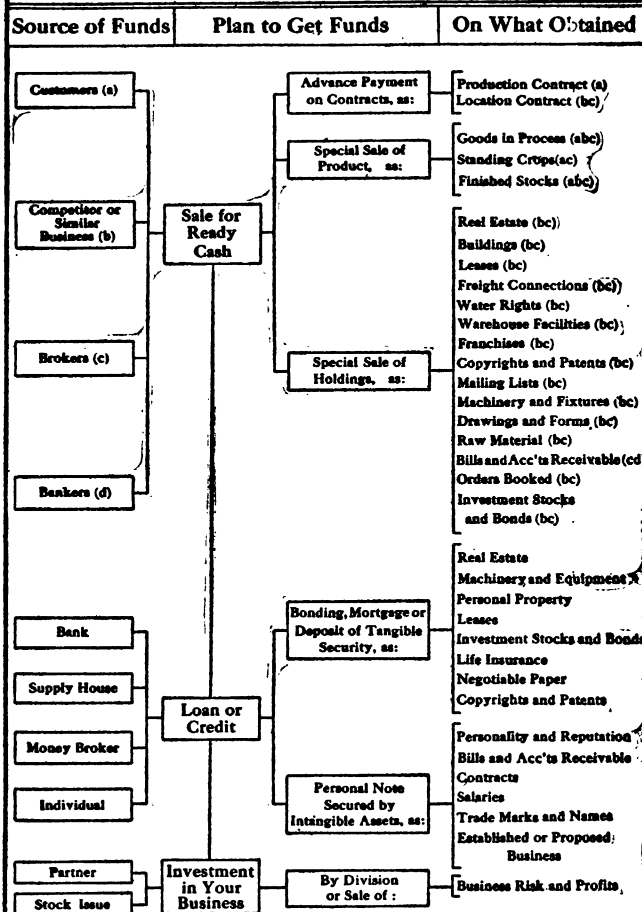
Money service is not always the same either in quality or in price. Money markets vary. Credit — which is the assurance of repayment you give—means different things in different markets.

If you want a loan payable at will rather than on call, the price of your accommodation will be higher. If the available money supply is low, or if your loan involves an unusual chance of loss, you must pay better. If you borrow more than you need—that is, if you overbuy money—your holdings depreciate day and night at your interest rate. If you underbuy, you may be unable to meet a vital cash demand.

Financing a business means expertness in buying, in selling, in using funds. It means establishing credit, stoping losses, coming through the pinch by sheer resourcefulness and "making both ends meet" in steady profits.

Men who finance store, factory and professional service with success first know their own condition exactly; then check over those who sell funds and apply to such sources as offer precisely what they need. They go to the best money market with carefully prepared purchasing power and buy with expert foresight precisely those funds in amount and in terms which the business needs.

HOW TO RAISE MONEY



Checking over plans, sources and securities for raising funds, as here listed, insures the use of every important resource. The letters, "a, b, c, d" in the last column refer to the different classes in the first column which these offerings may interest

CHAPTER I

Choosing Sources and Appraising Chances to Get Funds

HAND to mouth financing recently caused the failure of a large department store in a city of the middle west. The store was well located and the capital should have been sufficient. At the start there was little competition and the business prospered.

The prosperity, however, was brief. The owner of the store concentrated his attention on selling and buying. He ignored credit. He paid all small bills upon their presentation at the cashier's window, larger bills upon receipt of invoice. He took no measures to keep idle funds active; he did not try to establish a reputation among bankers and moneyed men; he adopted no plan to equalize his supply of capital with demand.

At length the business required a new building. The younger members of the firm advised establishing their credit and borrowing the money they needed. A new competitor had entered the field and was making extensive improvements. One of the merchant's sons, exasperated by this move, spoke to his father.

"See here," he said. "We're behind time. Take the railways, the sky-scrapers—all the great industrial works for that matter. Could they have been built up

by following our method? Do they keep their capital idle while waiting for it to grow? Why not borrow this money for the new building? We may be obliged to ask for credit some day to carry on our business. It is better to establish it now while we can."

The senior member of the firm, however, was obdurate. He would do nothing until he had accumulated a surplus sufficient to cover the expenses of the improvement, though he admitted that lack of space was a handicap.

The first two years the firm managed to build up a considerable surplus. This money was kept in a savings bank, drawing 3% interest. The third year, however, the competition had so grown that no surplus was earned. The fourth year began with a general business depression. The balance in the bank sank. Still the old policy was continued.

What was the result? The owner of the business had never been well known personally in financial circles. Instead of inspiring confidence, his plan had had the opposite effect. Business houses had concluded that he was obliged to pay cash—they came to demand cash on delivery. When the slump came the merchant tried to establish credit, but he had waited too long. He found himself a novice in financing. He did not know how to use to advantage the securities he possessed. He had formed a poor reputation for business acumen and was unable to secure sufficient credit. Although solvent, the firm was compelled to liquidate.

The failure of this merchant was due largely to needless ignorance of financing. He failed (1) to establish credit; (2) to make use of idle funds; (3) to provide for a stringency; (4) to make the most of his tangible and intangible assets, and (5) to arrange to take advantage of business opportunities.

The success of your business is closely connected with your methods of financing. The value of capital depends upon the use you make of it. Your ability to expand your business, to take advantage of opportunities and meet able competition—to save your business in time of financial distress—is largely dependent upon how you use your resources.

In the building, the maintenance and the expansion of a business finance is a two-edged tool. In skillful hands it becomes, like clever selling, wise buying or the ability to handle employees, a chief factor in the success of the manufacturer, the wholesaler and the man who measures dry goods or weighs sugar for neighborhood trade. Awkwardly used, it undermines the very foundations of a business; and failure may follow failure until the executive learns the lesson of where to look for money to suit various needs; how to attract the investor and satisfy the lender; how to swing the force of his personal ingenuity into the breach when a crisis develops, and how finally to gain a sure position through records that forecast future receipts and expenditures so that his business, like a well-ballasted ship, automatically maintains an equilibrium of cash supply and demand.

The first problem in financing a business is to get the capital. And wherever you may look your chances to secure money depend solely upon the confidence that you can inspire. It is confidence that determines the banker to grant you a loan; confidence that influences the supply house credit man to extend you a line of credit; confidence that attracts the partner and makes possible the stock issue; confidence that secures you loans from private investors. Analyzed, confidence depends upon the answer to these questions:

From the point of view of the lender: *Can* you and *will* you pay back the loan when due? From the point of view of the partner or the investor: Can you, as the chief *personal element* in your proposition, be relied upon absolutely, and does your business judgment warrant trust?

The factors which determine this essential element of confidence, or, in other words, the factors which determine your chances to get capital, are:

1. Your personality.
2. Your assets.
3. Your proposition.

The Money Value of Personality in Securing Capital for Your Business

One of the greatest resources is personality—personal power to inspire confidence. By that is meant not only appearance and presence, but character and ability.

Commercial bankers are almost unanimous in considering personality as the greatest of credit factors. Banks will not deal with anyone whom they cannot trust for honesty, integrity and ability. These qualities the bank considers its most important safeguard. In gathering material for its reports, a well-known credit reporting agency grades credit requisites like this:

Ability—relatively essential.
Integrity—absolutely essential.
Property—not necessarily so.

In appraising your chances to get capital, therefore, consider first the credit value of your personality. Have you a good reputation in your community, especially with bankers and moneyed men? If so, you can borrow on it. Have you a reputation for honesty and ability? A soap manufacturer was offered $5,000,000 for

the name only of his product—your name has value, too, if it stands for the right qualities.

Your chances to get capital depend, in the second place, upon your tangible assets. The confidence which really counts with bankers and money lenders is confidence in your ability as well as your honest determination to pay back a loan when due, and this depends to a large extent upon the amount and character of your tangible assets.

High-grade real estate is one of the best securities—you can always obtain a loan upon it. Government, state, municipal and some public utility bonds are always accepted. You can raise money on life insurance, on household furniture. But the value of your assets from a loaning viewpoint depends upon how readily they may be converted into cash. A patent that has never been proved a success is of little value as collateral—it could not be sold readily. Special machinery is of little value for the same reason.

How the Strength of a Business Proposition Can Be Made the Basis for Securing Capital

The third factor which determines your chances to get capital is the nature of your business proposition. Is your enterprise based upon a new invention or an untried scheme, or does it involve no new principle? Is the risk great? Do the chances for profit warrant the risk? These are some of the points which will determine the amount of capital you can raise on your plan.

In new enterprises which are not entirely based upon untried schemes the great difficulty comes from the existing competition. Where the field is covered, unless your proposition includes an exclusive feature which will overcome the advantage of long establishment, your

chances for ultimate success are considerably reduced, and the capital is correspondingly hard to secure. The propositions which have the best chance to secure backing are those that supply a want widely and generally felt.

The old complaint, "It takes money to get money," and "I never had a chance," make up a refrain that is sung by a large chorus of failures. But money is waiting for investment. The general principle is sound: *It can be raised for any business capable of creating profit.*

The burden of proof, however, is upon you. If you have a proposition of merit, you must *show* that it has merit. You must plan, study your business and take an active personal part in securing the confidence that alone will insure success.

While your chances to obtain capital depend upon the confidence your personality, your tangible assets and your proposition inspire, you must present these factors in the right way and to the right sources. It is here that personal resourcefulness becomes a factor in securing capital.

The business of a small foundryman had not progressed far before large competitors brought pressure to bear on his suppliers of raw materials to force him out of the field. Prices were raised and his cost of production became so high that his business existence was threatened. To put his business on an independent basis he ordered new machinery, depending upon a loan of five hundred dollars to which the banker had agreed. A few days after he had placed his order, however, he was informed that on account of a financial flurry his banker had been forced to refuse the loan.

The manufacturer returned to his office discouraged.

"We don't get the loan," he said, "and the payroll is about due."

The office conference lasted for some time. Suddenly the gloom on the manufacturer's face disappeared. "Here," he said, taking his hat, "we've got our business at least—our being established is an asset. I won't be back until I have raised five hundred dollars."

He went to an old manufacturer of farm implements who used his product; secured a generous contract and requested that his customer advance five hundred dollars as a guarantee. He presented his proposition in such a way that the advance seemed a matter of course; the opulent customer signed the check without question.

When regular methods of raising capital fail, the real test comes. Resourcefulness is only another word for insight—seeing exactly what assets in any form you have and using them to the best possible advantage.

How Close Financing together with Good Management Built up a Successful Business

Two printers in an Iowa town who had decided to take over a plant got together one evening to figure out how to raise the necessary money. Every conceivable avenue of financing their plant was discussed, item by item; material resources, loans and investments.

Fredericks had a house and lot worth three thousand dollars, mortgaged for one thousand dollars. Barnes had several influential friends he thought might consent to a loan, some stock in a doubtful proposition and his life insurance. Together they had six hundred dollars in cash.

The first suggestion, an issue of stock, involved the probable interference of stockholders, and furthermore

they saw that it would be as easy to secure outright lenders as investors. They could get no initial help from supply houses because the plant was already equipped and the owner demanded cash. A moneyed partner offered nearly the same objections as a stock issue. Finally they decided that to borrow on all their available resources would almost finance the enterprise.

They did this:

Fredericks raised:

On house and lot, by second mortgage	$ 800.00
On household effects	200.00
Cash	400.00
	$1,400.00

Barnes raised:

From a friend, on personal note	$ 500.00
On his life insurance	300.00
On his $1,000 unlisted stock	200.00
Cash	400.00
	$1,400.00

Two thousand eight hundred dollars was the total amount they were thus able to raise. They needed three thousand two hundred dollars to buy out the plant, and an additional five hundred dollars for other expenses. They worked together now, and fortunately they had begun to plan far enough ahead so that there was still time to proceed with caution. A partner was the only recourse. First, they canvassed among their friends. Those who had money, however, had already been drawn upon for loans. As a last resort they advertised for another investor. From among those who replied they found one man who consented to put $700 into the business and remain a silent partner. He had been watching the records of the printers and was satisfied that he was making a good investment.

This amount raised their capital to three thousand five hundred dollars. They still needed two hundred. This was for a part of the running expense. To cover this amount they solicited work in advance. The owner of the building where the plant was situated gave an order for work which he accepted in payment of the rent, and other minor expenses were met in the same way.

The insight of the two printers in financing under difficulties suggests the three vital things in getting money for your business: (1) Appraising without bias and listing in order of preference all those resources, personal and material, upon which you can raise money; (2) finding the one best market for each resource and getting the largest return from it; (3) making every subsequent financial step so business-like and clean-cut as to spell financial progress and improved standing in money markets.

First of all must come the personal appraisal of your resources. Have you known ability, a good reputation, a record to stand upon? Have you assets that insure your ability to pay back what is loaned you? Have you a proposition that offers a sure chance for profit, or one in which the chances for profit warrant the risk?

In this analysis you will find guidance in securing money. With this start it remains only to study, to train yourself in money matters, to look ahead and to foresee your needs, in order to meet most financial crises successfully.

CHAPTER II

When to Apply to the Bank

WHEN does the bank say 'No'?

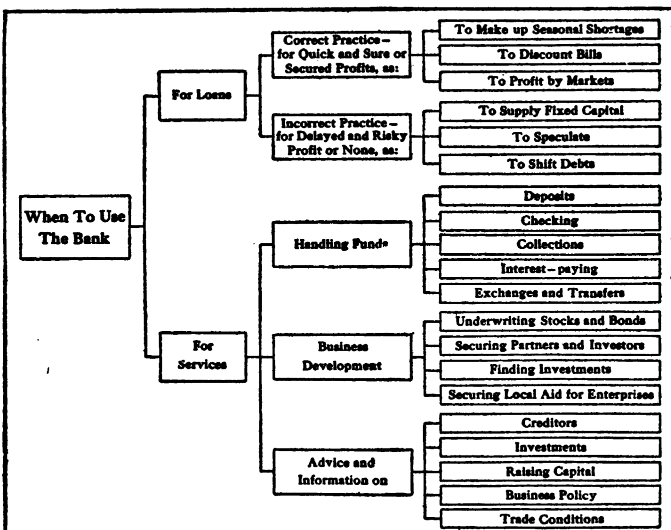
This question was put to the president of a large bank in Chicago. He reclined in his chair.

"Never, when the bank can help it," he replied.

The popular idea that you can get money from the bank only when you do not need it and that your chances of getting a loan vary in direct proportion to your ability to get along without it prevails because the nature of banking operations is not generally understood. If the banker refuses accommodation, it is because his interests demand it. The bank's accommodation is *special* accommodation. You would not go to an oculist for an operation for appendicitis—there are times when to go to the bank is equally absurd.

Bankers are no longer private money lenders, risking their personal capital upon loans in which favor plays a part. To use the words of the financier quoted above, a banker is "a merchant, absolutely and precisely a merchant." The "use of money," or credit, is a merchantable commodity. The banker buys credit and sells it at a profit. To be successful, he must keep turning over his stock, just as the shoe dealer must turn his. The man who comes for a loan is a prospective buyer.

Remember, it is not money that the banker sells, but the use of it. This distinction is important. The banker sells the use of money in precisely the same way that a liveryman sells the use of a horse. The first question either asks is whether or not he is sure of getting back what he loans. If you go to a livery stable for a horse to explore an unknown mountain district, full of dangerous precipices, whatever the glory of the adventure, you will be told to go elsewhere to procure your mount. If you go to a banker with a proposition involving equally unknown and hazardous steps the answer will be the same.



Bank credit properly has a well-defined place in business, hingeing upon quick return secured by quick assets. Correct and incorrect uses of bank credit, together with miscellaneous bank services, are here indicated

Likewise, neither a liveryman nor a banker would care to sell the use of a commodity for a period that would endanger his business. A liveryman by loaning

a large part of his stock for a long time to one person would risk being unable to meet the regular demands of his trade. The final result would be a loss. The situation in a bank is similar, except that the necessity for restrictions of this kind is much greater.

The depositors of a commercial bank have the first claims upon it. The individuality of the loans and deposits in a bank is constantly changing. One man's deposit is high this month and he is borrowing nothing; next month his deposit may be low and he be a heavy borrower. The banker must first of all provide for these shifting requirements of his many regular customers.

When you go to the bank, therefore, you must be able to convince the banker that you can pay back your loan, and that it will be outstanding only a short time. Your ability to do this, especially if you are not well known and a regular depositor, hinges, to a large extent, upon your quick assets.

Quick assets are those which can be turned into cash in the ordinary course of business. They include, in addition to actual cash, good accounts receivable, good bills receivable, and marketable securities held for investment, which are not a part of the fixed assets. To these items are usually added inventories. Quick assets are those for which there is a continual market—those which can be converted into cash without great inconvenience at any time.

When you go to the bank for a loan you should have evidence that your quick assets exceed quick liabilities. As a general rule, you should possess two dollars or more of quick assets to one of quick liabilities. The basis of a bank loan is a volume of quick assets sufficient to take up the loan and *to leave enough surplus quick*

assets to protect your business. The bank insists upon protection for itself and you.

A member of a corporation that had just completed its factory organization went to the bank for a loan to organize the sales department.

He showed the following assets:

Machinery	$10,000
Drawings, etc.	5,000
Patents	8,000
	$23,000

The banker glanced at the statement.

"Do you know how much all that is worth from our point of view?" he asked; "just the junk value of the machinery, which is practically nothing."

If the applicant for the loan had understood the nature of banking operations, he would have sought his loan from another source or presented other and better claims for it.

Presenting a Business Proposition as a Necessary Basis for Bank Accommodations

When you go to the bank for a loan, you should have a business proposition. You must be able to show that the money you need will be so used that it will bring quick and profitable returns. Do you want a loan to pay other creditors? to make permanent improvements? to sustain a failing business? Or have you a definite proposition that offers a chance for profit and will convince the banker of your ability to pay the loan when due? Put these questions to yourself candidly. Base your answers on the best information, advice and statements to be had. If you want the use of a banker's money, you must be able to show that you will get back the money you use, quickly and at a profit. It is his assurance that *he* will get it back.

Keen business men do not expect the banker to furnish any part of the fixed capital of an enterprise. That is either paid in by the owners or obtained by long time loans or bond issues from private investors.

The owner of a Pennsylvania stone quarry needed more capital for the period necessary to put his business on a paying basis. He went to the bank. He had neither a definite short time proposition nor quick assets. The banker could not see that he would be any better able to pay his loan at the end of three months than at first. The banker refused the loan. He advised him to put a bond issue on his property. From the sale of the bonds the owner of the quarry obtained funds which relieved his difficulties. Later the bonds not sold were deposited as bank security for a loan.

If the quarry owner had had greater knowledge of banking operations, he would not have applied for the bank's accommodation. He would have arranged for the bond issue on his own initiative. In this way he would not have made evident his financial ignorance.

Your bank credit should be held in reserve as a resource for temporary demands and opportunities, to enable you to be forehanded, able to discount bills and take advantage of markets or meet emergencies.

The *minimum* amount which is always needed in a business should be provided without dependence upon banks; the temporary requirements are the legitimate employment of bank funds.

It is wise to go to the bank:

1. When the loan is for temporary uses as contrasted with uses which involve investment in fixed improvements.

2. When your quick assets are sufficient to warrant the loan.

3. When you have a definite business proposition which insures a profit from the money you borrow.

If you cannot meet any of these conditions, it is advisable to seek money from other sources.

In small towns, where there is strong competition between the banks, and where interests other than purely banking interests, such as building up the community, can be made factors, the rules are sometimes stretched or ignored. But in the majority of cases, the bank's policy is also your policy. When banks are persuaded to grant loans for other than temporary purposes, a business man risks being forced to make an assignment or to go out of business in order to meet some small but urgent demand.

How to Secure the Bank's Help in Furthering Your Business and Financial Interests

The most vital of bank services is this of granting loans. But there are other aids that the bank offers, and the shrewd business man will take advantage of them. The banker is at the financial focus of a community. He is in touch with investors. He can help to secure the support of a town for a new industry. He can advise on markets, securities and investments. He can help in selling stocks and bonds. There is hardly a financial question upon which he does not give some help.

The banker's interests often coincide with yours. Men skilled in finance make a banker a partner. They consult with him on all matters of financial importance. They show him all the details of their business. This frankness, besides securing his confidence and accommodation, gains access to the other services he can offer.

An owner of a chain of canning factories was seek-

ing a new site in Indiana. The task of securing land from the town on the best terms was proposed to the local banker. The recommendations of the railroad officials were such as to convince him of the value of such an industry to his locality. Through his efforts the commercial club was prevailed upon to secure and donate the necessary ground, and to provide trackage rights. The banker also used his influence in interesting the farmers, and the company was enabled through the medium of the bank to operate with certainty of an adequate crop. Thus the bank serves the interests of its patron while serving itself also.

What the bank can do for its customers is as diverse as the activities of the businesses it serves. It can help almost everywhere; it can advise, safeguard, protect—handle your deposits and by check, your payments and receipts, help raise money, enlarge trade, advise how you may decrease expense and increase profits.

In supplying money, however, it has a certain well-defined field of service; to recognize this increases your financial effectiveness and contributes to your business reputation.

Guard Your Credit

CREDIT is often more valuable as an asset than capital. The business world accepts this truth and bases its greater activities upon it.

CHAPTER III

How to Negotiate a Bank Loan

FIVE hundred thousand dollars was recently obtained offhand on a promissory note by a large department store to discount its bills. When a half million dollars is procured as readily as this, there must be good reasons aside from tangible assets. These are the reasons, as the bank president gave them:

"The character of the store proprietor is such as to inspire full confidence that the loan would be paid.

"Analyzed, this confidence arose from the following considerations:

"The store had kept faith with its customers, building up good will as it built up its sales.

"It had put tremendous energy into selling, but never had sold under false pretenses or by exaggerated claims.

"It employed good buyers and insisted on a high standard in its salespeople.

"Its proprietors were always open and above board with me. They told me every essential thing they did; consulted me at least once a month, and furnished me with detailed, tabulated reports. I never had occasion to suspect them of any misstatements or false optimism.

"A sure and staple market existed and exists for the store's goods."

The same principles apply equally well to a loan of one hundred dollars. The most important point in your financial effort is, therefore, to know and adapt yourself to this basis on which the banker can safely afford you accommodation. It is by knowing the basis for bank loans, by framing your request on this basis, by approximating the banker's conditions, that you will be able to secure loans and fortify your credit standing.

In country banks or small city banks the cashier and the president have charge of loans. In the large city banks the great volume of business makes specialization necessary. Here you should make your application to the official, generally a vice-president, who has charge of loans in your particular line.

The first necessity in applying for a loan is to secure an introduction to the officials of the bank. City banks, as well as country banks, desire to know their customers intimately. The local real estate man, the factory owner, the contractor, merchant and lawyer, find it to their interest to bring the bank new customers of the right kind from week to week. Where your reputation is high, seek a bank introduction through a friend of financial prominence. The confidence of the bank in the customer who introduces you will accrue to your advantage.

A Michigan man went into the paint business with one great asset—his ability. He kept a checking account at the bank, but the balance was usually down to the vanishing point, and, instead of asking for cash, he felt that he should apologize every time he approached the teller's window.

One day he saw a chance to make a good profit by buying paint and varnish on a rising market. He went to the banker.

"How can I borrow some money?" he asked—and then he felt like running away.

"On what security?" inquired the financier.

"A carload of paint."

The banker elevated his eyebrows. "Paint isn't exactly the kind of security a bank wants," he said. "Suppose you couldn't sell it? We might have to close it out at a heavy discount."

The paint man admitted this was true. But he found courage to explain his plans fully.

The banker had been watching this young man for several months, not because his bank account was small, but because he had been exhibiting unusual ability as a salesman. It is seldom that these things escape a local banker. He considered the man's selling ability really better security than the stock of paint, and he granted the accommodation.

Your best guarantee of success in getting a loan at the bank is an earlier success in other directions; not necessarily a conspicuous financial achievement, but success in attainment of those personal attributes that make character. Individual habits, honesty, contempt for deceit and a faculty of looking at things in a true light—these are the elements that build confidence. A look at the personal records in the credit department files of a large bank would convince anyone of the credit value of personality and character.

How Business Records and Personal History May Be Made Factors in Securing Bank Loans

After character, and closely associated with it, come your business record and history. The banker places emphasis upon your history and he is entitled to know it fully. Have you always paid your debts, and done

so in a prompt and business-like way? Are your expectations based upon knowledge and intelligent calculation, or are they mere guesses? If you are new in the community, can you show a good record where you have lived? If you are new in business, have you a clean personal record in someone's employ? The more promptly and fully you show up these details the greater chance you have of obtaining a loan.

Two concerns applied to the bank for a loan. One of these had a loan item disproportionate to its financial responsibility. It was not accustomed to "clean up" and carried practically the same amount of loans continually. This constant position of borrower indicated a cramping for capital, a fact that put the concern at a disadvantage. The history of the firm was so good, however, that the bank accorded it an extended line of credit.

Another firm which had gone into bankruptcy presented a statement far superior. It was refused a loan for a reason the opposite of that for which the honest although struggling management, was granted accommodation. The personal records of its officials did not warrant a loan.

What the Statement and the Analysis of Business Mean to the Bank

When ordinary evidence fails to secure a loan, there is one argument by which you can compel the bank's attention. It is the analysis that goes deep into your resources—a detailed defense of your assets. You should go to the banker certain of the condition of your business; ready to analyze your assets and needs to the last detail. An analytical statement is the best and most business-like proof that the loan is justified.

The statement you make should show conspicuously the assets that really count in making a loan—the quick assets, such as accounts receivable, cash and merchandise. Against these you should set off your accounts and bills payable. Thus you can furnish, in bird's-eye perspective, your situation from a loaning standpoint.

If you expect your banker to grant you a loan, you should also be open and candid with him. If you do not care to trust your banker with the details of your business, go to another whom you can trust. The interests he guards give him a right to know all the facts that affect your solvency, and he will not be satisfied with generalities.

The attempt to keep the banker in the dark about some factors of a business is made even by honest borrowers. They tell the banker what they wish were true, or what they hope is going to be true, or they hold back some fact which, they falsely persuade themselves, may be irrelevant.

A man went into the office of a New York banker with a statement which was perfectly true as far as the business itself went. But he suppressed the fact that he, personally, had borrowed to the limit on his life insurance. As it happened, that was important, and it happened also that the check had gone through this bank and the fact had been noted. The loan was refused.

A banker gets to be an expert in detecting these reservations. If some discrepancy does not betray this kind of a borrower, his manner will. And deception in even a minor detail undermines confidence. A banker deciding whether or not to make a loan is like a contractor digging for hardpan upon which to rest the foundation of a building. Until he has found it, he

doesn't know how much farther down it is. The fact a customer conceals may be trivial, but if there is suspicion of concealment, the banker cannot be sure that his loan is safe, and he will not lend unless he is sure. On the other hand, confidence inspires confidence. The man who makes the banker a consulting partner in his business finds him a willing helper at need.

Next to frankness in presenting the details of your business comes the exactness of your knowledge of it. A man is generally considered to know about his own business, but it is often far from the case. Lack of trade knowledge may deceive him on such matters as depreciation, and other technical points; or he may be blinded by inherent optimism. Bankers are skeptical on this point, but evidence of thorough knowledge will do much to overcome this skepticism and secure confidence.

Moreover, the indorsement of the concern's paper by prominent men will often augment its credit.

A firm of partners was accorded a loan and at the same time a manufacturing corporation that presented a better statement was refused. The partners had large personal estates that were brought to the bank's attention as subject to the debts of the firm. Thus there was really greater financial backing than the company's statement itself showed. In the other case, the directors did not indorse the company's paper, and the only security was that actually shown in the statement. Had the directors been willing to indorse the corporation's paper it would not have been challenged.

Meeting the Banker's Requirements—What to Consider in Applying for a Loan

To negotiate a loan at the bank, understand the bank's requirements, and then meet them as far as possible.

Remember that perfect credit conditions are rare, but that the borrower who most fully evidences what he has, who keeps his record as clear as possible and offers profitable business to the lender, has the best chance to secure the bank's service.

In applying for a loan you should:

1. Get an introduction by a favorably known customer.

2. *Guard against all compromising appearances.* See that your private and business life are such that they will create a favorable impression. If you have a reputation for honesty, integrity and ability, *demand your loan on that asset — do not try to "fix up" your statement.*

3. Submit a statement of your business, complete in every detail. Make sure of your quick assets.

4. *Be frank in your dealings with the bank.* Do not withhold facts. Analyze your situation, showing what is to be done with the loan.

5. *See that you know the facts of your business.* Be careful of your statements. Do not exaggerate.

6. Consider the credit value of your business record. If favorable, it is an asset—it can be used to secure a loan.

7. Get private indorsement of your company's paper as a last resort, where money must be had even though the security implies financial weakness and need for backing.

BANKS base credit on the assurance that borrowers can pay out of their quick assets.

—*Geo. M. Reynolds*

CHAPTER IV

Getting Aid Where You Buy

AS personality is the prime factor in securing a loan from a commercial bank and tangible assets in borrowing from a bank doing a general loan business, so the condition of your business is the chief factor in obtaining a line of credit from a supply house.

When you go to a supply house for credit you are not only a customer for credit, but you are also a customer for goods. The credit man must regard sales as well as credit risk. The supply house is desirous of selling as much goods as possible. To follow a policy of extreme conservatism would mean the loss of trade. If you carry on your business in a progressive manner and combine with good management the degree of integrity necessary to warrant safety, the supply house will consider this sufficient guarantee that it will be paid for the goods it sells you.

The problem of obtaining credit from a supply house is closely associated with the problems of business organization and management. It is necessary to consider them together. The experience of a merchant in a small town illustrates how a retail store may be put on a basis to assure credit.

John Black, a dry goods salesman, decided to put

ten thousand dollars into the dry goods business. After he had selected his location, the first problem was the purchase of fixtures. Next he was obliged to place a limit upon the credit he would extend to customers. This was a vital problem, and one that would affect the credit standing of his store. Deducting the amount tied up indefinitely in fixtures and in customers' credits, he had left a working capital of six thousand dollars. On this capital he should be able to secure four thousand dollars credit from his supply house. This would enable him to carry ten thousand dollars stock. As he could turn it three times a year, he was in a position to do an annual business of thirty thousand dollars.

His expenses were not to be more than twenty per cent of the total sales—six thousand dollars per annum, or one thousand dollars every sixty days. His bills fell due in sixty days. On the basis outlined his business was conducted thus:

Original cash capital . . .	$10,000
Fixtures	2,000
	$ 8,000
Customers' accounts . . .	2,000
	$ 6,000
Credit from jobbers . . .	4,000

Stock carried	$10,000
Sales for year	30,000
Sales every sixty days . .	5,000
Deduct expenses and personal withdrawals for 60 days	1,000
Cash including profits, to apply to accts. payable	4,000
(which last entry proves up with the item, "Credit from jobbers.")	

John Black was able to establish a successful business. He planned not only to put his business on a sound basis, but he considered also his credit standing. He limited his outlay for fixtures; he limited the amount of his accounts receivable; he planned his business and took collection precautions so that he could meet his notes when due; he accepted an amount of credit well proportioned to his working capital.

As in the case of John Black, your credit standing with the supply house, as well as the success of your store, depends upon the following factors:

1. Selecting the right location.
2. Money paid for store fixtures.
3. Limit placed on customers' accounts.
4. Amount of credit accepted from jobbers.
5. Annual turnover.
6. Cost of doing business.

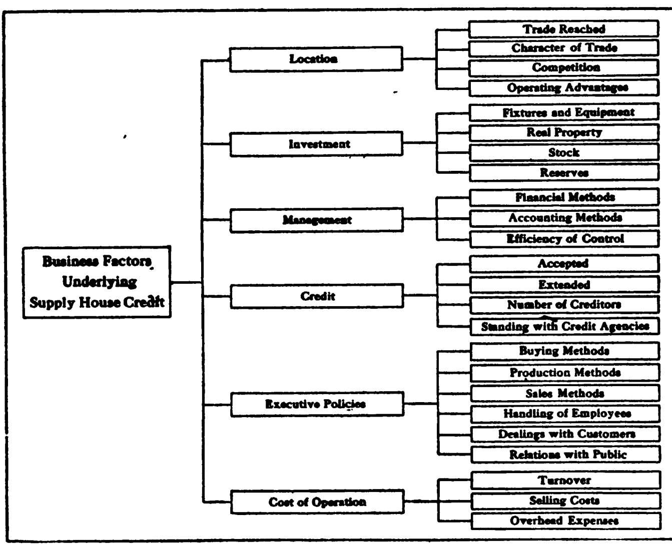
The extent to which you may use your suppliers' credit depends upon the nature of your business. In some cases the supplier makes the retailer his agent and demands remittances only as the goods are sold and as the final purchaser settles. Other houses require remittances on the first of every month or thirty days after the date of delivery.

Some supply houses, especially new and small concerns, furnish actual capital in money, and in order to secure trade will offer long time credit terms. If you need additional capital to start or to carry on your business, supply house credit offers great advantages and few disadvantages. It is more easily secured than most other kinds of credit. In the case of a stock of goods, the payment of the amount is provided for by the sales. Unlike the method of taking in capital by an issue of stock or by taking in a moneyed partner, this method entails no sacrifice of part management in the enterprise.

With ample credit, the advisability of accepting accommodation from your supply house depends upon the amount of the discount for cash and the value of the money to you in some other investment. For instance, if the discount is small and the money market

high, the money you would have to pay in cash might earn more in sixty or ninety days than the amount of the discount.

While there are advantages in obtaining credit from the supply house, it often entails over-buying. Payments look small at a distance. When credit is extended and no sacrifice is demanded for a long time, a retailer is often persuaded to lay in stock that he will be unable to sell, a stock that will "grow whiskers," to use the credit man's phrase. In the liquidation of a store in



Securing permanent credit support from the manufacturers and wholesalers who supply the mill and store, depends upon your demonstration that every important factor in your business, as here suggested, favors a prospect of consistent profits

northern Illinois, in 1910, a stock of caps was found which was made expressly for the Grant-Colfax presidential campaign in 1872.

There is a close analogy between jobbers' credit and

bank credit. The same general factors of personality, assets and business possibilities apply. As in the case of a bank loan, you should first understand the nature of supply house credit and then meet the requirements. What the credit man wants to know about you is suggested by the chart in this chapter.

Remember that knowledge is back of confidence. Moreover, frankness, willingness to submit difficulties as they are, is one of the greatest factors in securing credit from whatever source.

A southern merchant had seen the credit man of his supply house only a few times. He considered himself an almost entire stranger. In the course of his conversation he misstated some facts. He had not gone far, however, before the credit man checked him with an abrupt gesture.

"Do you mean to say that your stock is worth fifty thousand dollars?" the credit man asked.

The supply house official then entered into a complete account of his prospective customer's history, told him when he came to this country, where he got his capital, how many children he had, where he lived, the location and business of his relatives, the condition and extent of his stock.

The merchant fell back in his chair. He had learned the lesson of misrepresentation before a credit man, too late.

Likewise, as in bank credit, the smallest factors of personality and habits are considered by the credit department of the factory and jobbing house.

A dry goods store in a little town in Nebraska has been running for several years. At first the proprietor met his bills regularly. Recently, however, he asked for a considerable extension of credit. It was granted

after some hesitation. This merchant is now on the "keep-track list," and at the bottom of the card, underneath the statement, is one matter-of-fact word which explains the whole case—"Drinking."

How to Use the Credit Man's Service in Financing Your Business

The credit man is an expert in his line and that means that in most cases he is an expert in your line also. His value to his house depends largely upon the extent of his knowledge of the trade he serves. He has watched hundreds of business successes and failures. He knows the *why*. One credit man said that he could tell in fifteen minutes what was the matter with almost any store—and it was not vain boasting either.

The credit man is willing to help you, not only to finance your business, but to make it grow and pay. He requires in return absolute frankness in your dealings with him, and your confidence.

A country merchant violated the two great rules the credit department recommended, that is, he stretched his own credit and extended too much to his customers. One day this man, Blackwell, rushed into the office of the wholesale house in whose debt he stood.

"The sheriff is in possession of my store!" he said.

The credit man knew that Blackwell's trouble was due chiefly to inexperience, but he had confidence in his ability. Taking a draft for five thousand dollars, the credit man returned with Blackwell to his town; the claim was satisfied and the sheriff left the premises. Blackwell was then installed as manager, acting for the jobbers who had accommodated him.

Eventually, by following the rules rigidly, Blackwell turned the stock, paid the creditors in full, and came

once more into control of the reorganized store with a small working capital to proceed on.

Small Factors Which Have a Big Influence in Obtaining Credit from a Supply House

The merchant who needs credit and who values his credit standing should, in the first place, do business with one house as much as possible, and as a precaution against foreclosure, he should avoid having a large number of small creditors, that is, "spreading his credit too thin."

A man who went to a supply house for credit, doing a business on a capital of twenty thousand dollars, had sixty-four creditors. The credit man was obliged to refuse. A number of small creditors are dangerous. They have little real interest in the debtor, and are likely to force him to liquidate on the first sign of financial embarrassment. The tendency at present is to deal as much as possible directly with the manufacturer. To buy at random for the sake of little savings in price often results in complete loss of credit.

Remember that the surest basis for accommodation is in the management of your business. Plan your financing in advance; consider how much credit you may reasonably demand and the amount you should extend to customers. Watch, also, such matters as appearances, insurance, the condition of your stock, courtesy in dealing with employees and customers. Establish a reputation for integrity. Coöperate with credit agencies. Show willingness to consider the interest of house extending you accommodation.

It is good policy to establish a personal relation with the credit man, and to consult him on all matters of financial importance.

CHAPTER V

Taking in Capital

TAKING in capital means sharing the profits and sharing the risk. There are two ways to take in capital: (1) by admitting a moneyed partner; (2) by issuing stock.

An inventor advertised for capital to float an enterprise. He received five answers: four from chattel mortgage sharks, and one from a man who had a little money and desired employment for himself as well as for it. The inventor accepted the last offer.

His partner appeared at first to have some ability. The inventor's good opinion of him, however, did not last. Every night when the inventor came in tired but loaded down with orders, his partner would be waiting for him with a typewritten list of matters upon which he wanted to consult. The inventor would skim through the list and tell him what to do. What he was told he would always write down, for fear of forgetting. He had waited for orders until he could not overcome the habit. In a few months, capital ran short. The partnership was dissolved, although the interest in the patent was still divided. Later the inventor sold the patent for ten thousand dollars and was obliged to give five thousand of it to his former incapable partner.

This incident illustrates the greatest danger of admitting a moneyed partner—that of not knowing beforehand whether he will be a help or a handicap—of appraising the mere money assistance above the positive or negative influence of the new half owner.

The choice of a partner is similar to the employment of a high executive, except that in the one case the employee can be discharged, and in the other a lack of the qualities necessary to the position can be remedied only at the cost of one-half of the entire business.

When Taking in a Moneyed Partner Offers the Best Means of Obtaining Capital

An odd-looking westerner entered the office of a small real estate dealer in the outskirts of New York. He had had successful real estate experience, but he was tired of little deals and wanted to engage in business on a bigger scale. After he had presented his project, the New York real estate man told him that there was a real estate office on every corner and that all the real estate men in that section were on the verge of starvation. But the new-comer was not easily discouraged. Just as he started to leave, disparaging New York methods, the New York man called him back.

"Hold on, Jenkins," he said. "You are a good bluffer at any rate. Here is a list of properties—see what you can do."

The next morning when the real estate dealer reached his office, Jenkins was there with a weazened little old woman whom he introduced as his landlady. In a week he had sold her a ten-apartment building. After that, the partnership was clinched. Jenkins added what capital he had. Business prospered. The only phase of the work in which Jenkins proved weak was in the

office and legal end, and that became the main part of the New York man's work.

The experience of the New York real estate dealer illustrates the best occasion for taking in a moneyed partner. In his case he secured, not only additional capital to attempt a larger business, but he got new blood into his enterprise. Furthermore, the partner was strong where he was weak. Neither could have done so well alone.

There is seldom a case where money is needed more than brains and energy. Most successful partnerships are formed in view of both of these requisites. Some lines of business call for diverse knowledge and abilities that no one can combine. For instance, in a manufacturing plant the owner may have expert knowledge of factory management, but he may be weak in knowledge of sales organization. Or, one branch of an enterprise may depend upon another. A grocery store is often handicapped because of the distance to the next butcher shop. A further advantage of this method lies in the fact that in the case of new schemes or enterprises based on new inventions there is often difficulty in securing funds in any other way. Banks will seldom give aid. A stock issue or borrowing from private investors is seldom possible because of the difficulty of convincing a large number of people of the profit chances of your scheme. The money secured through partnership belongs entirely to your enterprise. There is no interest to pay on it, and you are in no danger, as where loans are sought, of being forced to go out of business to pay back the money.

There are two ways to secure a moneyed partner: (1) by presenting your proposition among friends and acquaintances; that is, broadly speaking, private

means, and (2) by advertising in the "business opportunities" columns of the newspapers and periodicals, or public means.

When you are considering a partner, do not be in too great a hurry—give yourself time to test him. "Choosing a partner is like choosing a wife"—in either case there is need for second thought and sure knowledge.

A Michigan man was looking for a partner to take charge of the sales department of his concern. Instead of choosing a man in the usual haphazard way, on a chance acquaintanceship, and after a quick judgment, he made a complete investigation of several prospects, involving his spare time for more than three months. He visited the places where they had lived. He found out about their habits, and their standing among neighbors, friends and critics. He interviewed their previous employers. He found out what they had done, their ability and their trustworthiness. The investigation cost considerable time and money, but it was cheap insurance.

A newspaper man who was looking for a partner had received an offer of a block of shares in a gas company conditioned on his support of a questionable franchise grant to them.

"We've got five thousand dollars to start with," he said to his prospective associate.

"But it's a bribe," was the quick reply.

It was the answer the newspaper man had wanted.

In another case a manufacturer of gasoline motors tested the business acumen of prospective partners by noticing how they accepted a glowing word picture of visionary profits to be made immediately by manufacturing motors for aeroplanes.

Before admitting a partner you should know:

1. About his ability, his past record, his standing in the community, his technical knowledge, his education, his personal habits, his financial expertness.

2. Whether his knowledge, experience and ability complete yours, and you could work with him to advantage.

3. Whether he has a disposition that inclines him to restlessness.

4. Whether he is ambitious; whether he will put his best efforts into building up your concern.

5. Whether he is honest — whether his character warrants complete trust.

Two merchants who had implicit confidence in each other formed a partnership upon an unusually wise base. They anticipated no difficulties from misunderstanding or from personal differences, but they provided for them nevertheless. In the articles they drew up they arranged for joint appraisal or an arbitration committee to settle differences between their estimates of the value of their business at any time. They agreed also that no matter which presented the proposition for dissolution the other would have the right either to buy or to sell. They provided also for even responsibility in the addition of new capital. These safeguards often appear at first to be needless, but the experience of a large number of partnerships confirms their value. In preparing the agreement for a partnership, you should provide specifically for a clear division of the duties, for the amount of profits to be taken out and the amount to be put back into the business, for a fair interest on all investments and withdrawals, for reserves, for the salary basis in case the profits are not divided evenly, for the routine of appraisal and continuation or liquida-

tion of the business in case of the death or withdrawal of one of the partners.

The Second Method of Taking in Capital—Issuing Stock for an Enterprise

There is a close connection as to advantages and disadvantages between the issue of stock and the first method of taking in capital—the partnership. In both cases the risk and also the profits are divided.

In most small businesses a stock issue is impracticable. These enterprises depend almost entirely upon the ability of the management and an issue of stock entails a sacrifice of management to the stockholders. One stockholder will advise one thing; another something else. It is generally a case of too many cooks. Occasionally inactive stockholders are looking only for a chance to invest their money profitably. In most small enterprises, however, it is as easy to secure loans from these investors as to sell stock. The advisability of a stock issue under these conditions depends upon *your eagerness to divide the risk.*

With larger corporations—railways and great industrial works in which a large amount of capital is needed—stock and bond issues offer the only solution possible.

Whether or not it would be advisable for you to adopt this method of raising capital depends, in the first place, upon whether interested stockholders would be a help to your enterprise. With the interurban trolley, the gas, electric light and water companies of the small city, nothing will aid so much in the work of construction, in securing patronage and retaining it, as having shares scattered among the farmers, workmen, merchants and professonal men of the community. This is also true of many wholesale ventures.

A plumber decided to raise capital to start an enterprise based upon a device he had perfected. He had some capital of his own and could have raised the necessary money by borrowing on his collateral and on personal notes. He reasoned, however, that if he should form a corporation and sell the stock to the plumbers in the district where he expected to do business, the success of his venture would be assured. The plan succeeded. The users of the company's product were directly interested in its welfare. Their support alone secured enough business to establish the enterprise.

In the actual placing of shares of stock, principles similar to those of securing a moneyed partner apply. The method may be either public or private. As a general rule, only private presentation is practicable except in the case of large corporations. The strongest prospectus not only develops the project but indicates the successful interests back of it. Signatures are best secured on a single sheet, headed with the names of the most influential stock buyers.

When the money is needed for the expansion of the business, the basis of the selling campaign should be the complete report of some certified public accountant, showing exactly what has been done in the past. This statement will get consideration when nothing else will. It is always expected that the promoter of an enterprise will be enthusiastic, but facts and figures are not subject to mental discount.

A close analogy exists between the issue of bonds and the issue of stock. A bond, however, is a direct lien upon the property of the corporation. A stock issue divides the risk; a bond issue, on the other hand, is a form of mortgage; the risk and profit are wholly upon the business.

In presenting stock for sale among local investors, let your prospectus touch their interests, not only on the basis of possible direct profit, but also on the basis of indirect benefits to be derived. The ease with which you sell your stock depends upon your ability to *talk* your proposition. Find out what interests appeal most strongly to your particular prospect, and emphasize them. In selling the stock of a preserving factory in an Idaho town, the promoters showed the advantage to the farmers in markets; the advantage to the banker in increased accounts; and the advantage to the merchants in increased sales of supplies to the plant and to the employees. The stock of a sanitarium was sold by showing the local investors how the town would become more desirable for residences, how property values would appreciate, how the practice of physicians would be built up, and how the merchants could increase their business. In placing stock, these are some of the interests to play upon. Show how your particular prospect will be benefited indirectly and how profits may reasonably be expected from the business itself. In this way you will secure coöperation and support, as well as capital.

Keep Control

IF outside capital must be secured, let it come from those who have implicit confidence in the organizers and who will consider the advance only as a profitable investment.

—*Henry Clews*

Part II

HOW TO SATISFY THE LENDER

What is Credit?

AT the movement of a finger a bargain of six figures is made in the wheat pit. A word and a nod buy and sell carloads in the wholesale house. Confidence—the confidence of the sales agent in the buyer—underlies and expedites credit business.

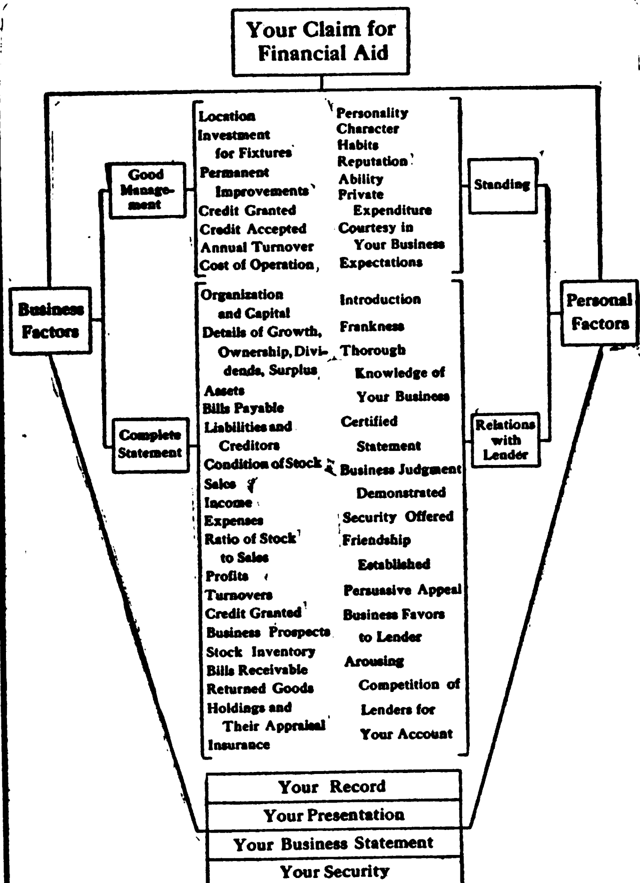
In precisely the same way confidence underlies the investment and the lending of money—the financing of your business. The man who furnishes funds buys and sells the use of money on credit. To secure a supply of money from him you must show him that it is good business for him to lend; you must make him confident of receiving his principal and his profit.

You may secure your creditor by tangible assets legally bound and beyond your control; or you may secure him by your personal promise to pay.

A personal promise depends on your willingness and your ability to keep it. Men of honor are often unable to pay—men of property are often dishonest. To establish both your ability and your willingness to pay requires a statement of the property you own; all possible evidences of your business ability in handling your property and enterprises; thorough demonstration of your character.

The more flawless the business record you consciously develop and the more thoroughly you present this evidence with business-like acumen, the more easily can you secure money. Consistent credit can be had only by proving that you are unflaggingly honest and capable—that you will make every effort to repay; and that back of effort lies financial knowledge linked with business power.

FACTORS THAT ESTABLISH FINANCIAL CONFIDENCE



Ability to raise funds depends on the business and personal factors the borrower introduces, as shown by this chart. Money merchants quickly recognize a clean record, a strong appeal, a complete statement and business-like security

CHAPTER VI

Financing on Real and Personal Property

$50,000 was needed by a southwestern chamber of commerce for the erection of a new building. To raise funds the directors joined hands with a local life insurance company which was seeking to gain the momentum of high-grade local patronage. The insurance officials offered the chamber of commerce a liberal share of the commission on every policy written at the instance of its membership within a given time. Upon this basis, the chamber of commerce financed its building completely in less than sixty days.

The secretary of a Pennsylvania concern was buying the sales rights of a subsidiary product. He financed the purchase by selling five town lots on time; by securing $750 from an aunt who agreed to become a silent partner, and by borrowing $500 from his former employer on his personal note.

Finance has but one rule for securing funds—*give an equivalent.* Getting money may always be considered as a straight transaction of purchase and sale. The chamber of commerce sold to the life insurance company its services as a policy-writing agent, backed by the efforts of its powerful business membership and its

parallel appeal for the endowment of a public institution. The Pennsylvania secretary actually disposed of his real estate and sold to a money broker the notes receivable thereon; to his partner he sold a fraction of the possibilities of his enterprise; and to his former employer he sold an investment for a definite period, giving as a final consideration a share of his future income amounting to the full money value plus a guaranteed profit of six per cent. He first used actual possessions which he could transfer to another holder, and then filled out his fund by resort to his credit standing and intangible chances of future profit, in which the money lender was willing to purchase an investment.

When money is needed for a business the one question is: "What have I to sell?" And the obvious answer—the easiest and most certain source of funds—lies in those material properties which can be transferred to or legally bound by the concern that in return furnishes you with money.

How to List Your Properties and Choose Those That Will Help You Most in the Money Market

Finances are often secured by sale or pledge of practically every item that shows upon an inventory sheet; real estate and buildings, leases, water frontage, freight connections, water power rights, machinery and fixtures, products at any stage of manufacture where they are easily convertible, franchises and contracts, copyrights and patents, life insurance policies, prospect and sales lists. Negotiable paper and securities, such as the real estate mortgage, the bond and the warehouse receipt for grain, are based upon definite material property and have a recognized sale or loan value when taken to proper markets. Other securities, such as stock certifi-

cates, notes receivable and accounts receivable, have no tangible backing except the general credit and profit chance of the debtors. Such securities are usually deposited by a borrower merely to strengthen the credit standing which is actually the basis of the loan. Nine hundred thousand dollars was recently advanced upon deposit with an agreed trustee of $1,250,000 in notes receivable. The creditors were cleverly protected, however, through the borrower's agreement to deposit cash monthly with the trustee assuring repayment at the rate of $100,000 annually. Moreover, quarterly statements were rendered to the trustee and his advice invited as an extra assurance of continued credit and prosperity for the borrower.

Tangible properties represent, not merely (1) something which can be sold outright, but (2) something which can be mortgaged to lenders, or (3) something the use of which can either be sold or rented for the period of financial need. In this analysis lies the secret of success in securing funds on property as a basis.

A Dakota merchant sublet the basement of his store at a figure which enabled him to finance an advance in the price of his own lease and prevent a competitor from crowding him out. A merchant, seeking a bank loan, clinched his case by drawing from his pocket a contract designating him as the official supplier for a chain of railway construction camps. A Southern manufacturer raised funds by renting warehouse facilities to a furniture dealer who happened to be crowded for storage room. Whatever your holdings, reservations or investments, it is almost certain that if they are tangible they have a definite value somewhere.

Whether you are subletting floor space, disposing of an idle machine or negotiating a loan on merchandise

inventory, the financial problem of making the most of your transferable holdings is essentially a sales problem. The executive who uses them with best results (1) takes a salesman's advantage of the time element, (2) finds the best market in which to offer his commodity or security, (3) cleverly arouses the possible competition in that market for that commodity, (4) excites a desire not only for what he has to offer today, but for his financial patronage month after month.

The shrewd manager of finance, like the successful salesman, looks ahead, studies the money market, offers his securities or holdings when times are favorable and even buys his reserve stocks and bonds under a plan which makes them available at the times when other resources fail.

There is an art, too, in checking over all the different individuals, money brokers and sources of funds to determine which one places the highest value on the property you offer. A young grocer in a Columbia River town was in need of $6,000 for a grocery which he had established in a neighboring city; yet there seemed no way to raise the money except to sell at a sacrifice his home store in the sluggish village. As he checked over all the possible buyers for the unattractive small town business, however, he hit upon one man of modest ambitions and capital, who, being bound to the town by all the ties of habit and family, might snap up the purchase. As it proved, the finding of the one live market for his offering enabled the young grocer to close an advantageous sale.

The choice of lenders, or "buyers" for the investments you offer, must be considered in view of the securities you propose just as the grocer narrowed down his selling campaign to the one best buyer for his store.

Commercial banks demand ready money and quick assets; national banks are prohibited from loaning upon real estate. The man who comes into the market for a mortgage loan or with slow assets as security, must apply to the individual, to the money broker, to the state bank or trust company. With every class of property and paper, like facts are significant. The man who expects to finance cleverly, studies the money market before he enters it.

How Salesmanship in the Presentation of Your Request and Security Operates to Get Loans

A seasoned business man was indignant because he failed to secure a bank loan of $25,000 for the summer, upon a security of ten times that amount. He could not explain the refusal he had met.

"But do you understand," inquired a friendly financier, "that money is tight just now and that banks are busy taking care of their regular customers? Applications for bank loans are listed and come before the directors or some official for decision. All or a few loans may be granted, depending upon the attractiveness of the investments and upon whether or not the bank has a large balance to put out at interest. First favors go to regular and substantial depositors, then to smaller depositors and finally to outsiders in the order of the security they offer, the interest they bid for the purchase of ready money and the future patronage they can award the bank. What you have failed to do is to understand that money lenders vie with one another to select the most attractive holdings. You have not studied the market for your borrowings, nor put salesmanship into your proposition."

Negotiable paper is usually sold through brokers, but

depends for salability upon similar considerations. The clever borrower seeks funds when the lender's balance for investment is large; his application is attractive in proportion as it bears signatures of known standing, as it offers good interest, as its securities, in the way of warehouse receipts, merchandise stocks, and so on, are high grade. The purchase of a mortgage involves expert investigation of the property; proof that it includes an occupied and income-producing structure; a decision, in the case of a city bank, by a loan committee of capitalists, real estate investors and other experts, touching the value of the property, improvements, condition of buildings, materials used and whether fireproof, insurance conditions, guarantee of title, and finally, whether the loan total is sufficiently under the appraised value of the security.

With the country merchant or the head of a little factory, the negotiation of a loan may seem informal, but will follow these same fundamental lines. At no point do set rules govern. The transaction of getting money on security is a genuine sale. The money lender buys what offers him the greatest advantage. Securities bring their maximum only when offered at the right time to the best market and with the most attractive setting.

Salesmanship in financing upon material properties has come to demand that you take the money lender's motives, precautions and wishes frankly into account; that you make the facts of your presentation full and flawless; that you demonstrate insurance protection, title guarantee and every factor that makes for security or carries persuasion with the money lender; that you emphasize the "you" interests which have led you to bring your security to this particular market; that you appeal

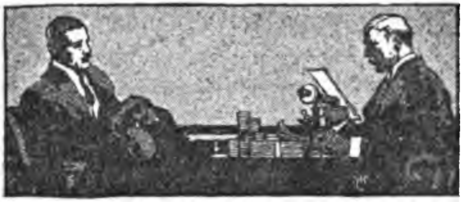
to the underlying desires, with argument, proof, guarantee and inducement, just as a clever salesman gains for his goods the highest regard and the readiness to pay a price which spells *profits.*

A steel company faced an important demand for cash. The president came before his executives and said:

"Any staple, such as cotton, wheat, corn, coal, represents value of as genuine a sort as commerce offers. We have a half-dozen piles of iron ore on the river front. We cannot show warehouse receipts, but I am going down to the bank and invite my friends there to send out a watchman with authority to guard ore piles Numbers 4 and 6 as the basis of a loan to meet our needs. He will have authority to check weights as the ore is used, in order to see that we pay back the money more rapidly than we use up the security."

The manufacturer went to his banker, presented his case frankly, hinted at the value of his account to the bank, offered an extra half per cent interest and suggested the ore piles as security. The loan was made.

In every business, there are such possibilities of finding a basis in fixed assets, in materials or in other securities for cash sales or money loans. With a salesman's cleverness in knowing market rules and conditions, in appreciating values, choosing times and locating prospects, there is no simpler rule of finance than to offer, as a final value or as security, the tangible properties which best assure the buyer or lender a full equivalent for his money.



CHAPTER VII

Points That Win the Banker and Credit Man

FACTS are the basis of every business transaction. "Give me the facts," says the executive to whom you are presenting a proposition, whether you are seeking a loan, applying for a position, selling goods or making a complaint.

Nowhere are facts more important, more requisite, more self-sufficing than in securing credit. Present all the facts of your case.

The position of the banker, like that of a lawyer, is a position of trust. If the banker is engaged in a competing line of business or is connected with competing firms, it is impossible to submit details with complete frankness. But you should avoid the difficulty by your choice of banking connections.

It is not only necessary in most cases to state the essential facts of your business, but it is good policy to give them on your own initiative. Suspicion, deception, even an appearance of concealment are antagonistic to credit. In large banks methods of obtaining information about borrowers have been reduced to a complete and efficient system. Mercantile reports, individual statements, coöperative trade clearing house reports—

these mediums of obtaining information about you are used by all credit men. The efficiency of the investigations is a reason in itself for the exercise of both frankness and veracity in your credit applications.

A manufacturer in a small Illinois city went to a large bank in Chicago to secure a loan. In the past he had simply gone to his local banker and said: "John, I want $5,000 for sixty days." The only ceremony attached to borrowing was the signing of a promissory note. The banker had the facts without asking.

At the city bank the first sheet of the statement he was required to fill out offended the manufacturer. Why should he reveal to the bank all the secrets of his profits, sales and expenses? Why should he be required to go into ancient history and tell how he started, how he got his capital and how much money he had drawn out of the business every year? Some of the questions were even embarrassing. There were items of contingent liabilities, notes he had endorsed for friends, that he considered his personal affair and not connected at all with this proposed loan. Some of the questions he could not answer conveniently. He left the spaces blank.

Next day a diplomatic and business-like man called and introduced himself as Mr. Brown of the Credit Information Bureau. With the first question he grew personal.

"You are married, I believe?" he asked.

"Fifteen years," retorted the manufacturer.

"More than once?" The credit man was polite and smiling.

"Yes, twice."

"And how much of a family?"

Other questions followed along the same lines, even concerning the amount of his household expenses. The

credit man then went to outside sources for facts he could not get in the interview. He found out the business hours the manufacturer kept, his amusements, his habits. There was nothing startling about the report. The bank would have considered him a good risk had not its credit department been afraid of his secretiveness. The loan was refused.

If you try to hide the facts of your business or to misrepresent them the weakness that is concealed will almost inevitably come to light. The best plan is to make a clean breast of it. You have a chance then of securing a loan because of your frankness and integrity.

What Information Counts Most with the Banker and Supply House Credit Man

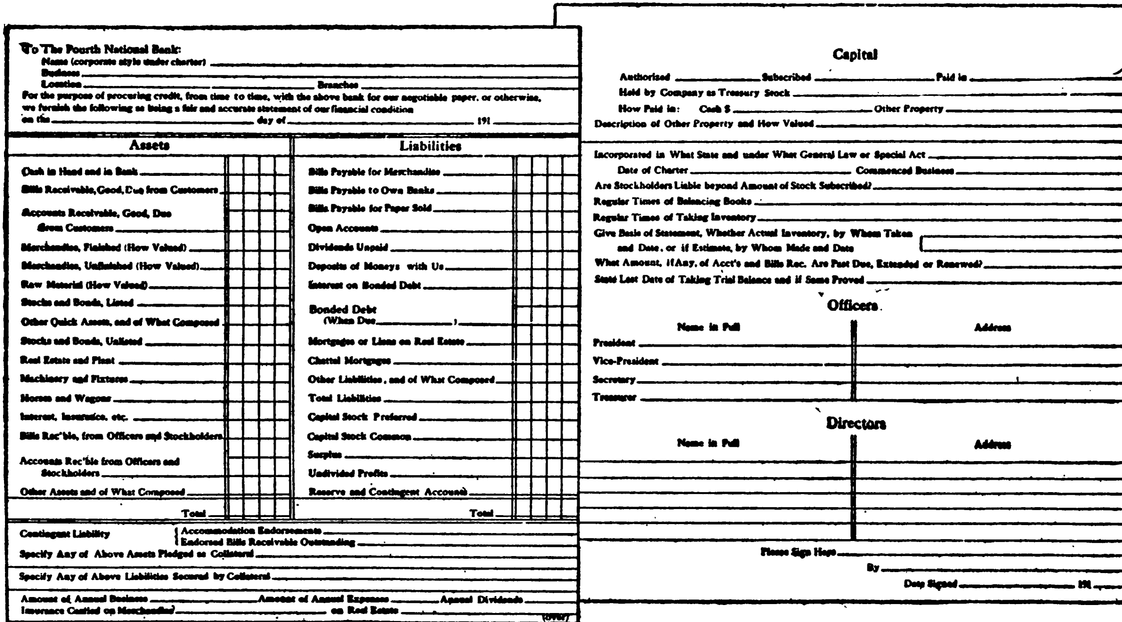
The first information the banker or credit man wants is about your character. Have you always paid your debts and done so in a prompt and business-like way? Do you keep your promises? What is your experience and what success have you had?

What the president and cashier formerly carried in their heads, the credit department of a bank or supply house now carries in its files, with much more that seems impertinent to the old school of business.

A manufacturing house, established eighteen months, doing a good business, desired to make its first loan. Its chief official made his application in person at the president's office. With some pride he exhibited a series of photographs showing the plant exterior and interior.

The banker fumbled the photographs and complimented their artistic finish, then he tossed them aside.

"Photographs do not represent the best security," he



To The Fourth National Bank:
Name (corporate style under charter)
Business
Location Branches
For the purpose of procuring credit, from time to time, with the above bank for our negotiable paper, or otherwise, we furnish the following as being a fair and accurate statement of our financial condition on the ____ day of ____ 191__

Assets		Liabilities	
Cash in Hand and in Bank		Bills Payable for Merchandise	
Bills Receivable, Good, Due from Customers		Bills Payable to Own Banks	
Accounts Receivable, Good, Due from Customers		Bills Payable for Paper Sold	
		Open Accounts	
Merchandise, Finished (How Valued)		Dividends Unpaid	
Merchandise, Unfinished (How Valued)		Deposits of Moneys with Us	
Raw Material (How Valued)		Interest on Bonded Debt	
Stocks and Bonds, Listed		Bonded Debt (When Due ____)	
Other Quick Assets, and of What Composed			
Stocks and Bonds, Unlisted		Mortgages or Liens on Real Estate	
Real Estate and Plant		Chattel Mortgages	
Machinery and Fixtures		Other Liabilities, and of What Composed	
Horses and Wagons		Total Liabilities	
Interest, Insurance, etc.		Capital Stock Preferred	
Bills Rec'ble, from Officers and Stockholders		Capital Stock Common	
Accounts Rec'ble from Officers and Stockholders		Surplus	
		Undivided Profits	
Other Assets and of What Composed		Reserve and Contingent Accounts	
Total		Total	

Contingent Liability { Accommodation Endorsements / Endorsed Bills Receivable Outstanding
Specify Any of Above Assets Pledged as Collateral
Specify Any of Above Liabilities Secured by Collateral
Amount of Annual Business ____ Amount of Annual Expenses ____ Annual Dividends ____
Insurance Carried on Merchandise ____ on Real Estate ____
(over)

Capital

Authorized ____ Subscribed ____ Paid in ____
Held by Company as Treasury Stock
How Paid in: Cash $ ____ Other Property
Description of Other Property and How Valued

Incorporated in What State and under What General Law or Special Act
Date of Charter ____ Commenced Business
Are Stockholders Liable beyond Amount of Stock Subscribed?
Regular Times of Balancing Books
Regular Times of Taking Inventory
Give Basis of Statement, Whether Actual Inventory, by Whom Taken and Date, or if Estimate, by Whom Made and Date
What Amount, if Any, of Acct's and Bills Rec. Are Past Due, Extended or Renewed?
State Last Date of Taking Trial Balance and if Same Proved

Officers

	Name in Full	Address
President		
Vice-President		
Secretary		
Treasurer		

Directors

Name in Full	Address

Please Sign Here ____
By ____
Date Signed ____ 191__

FORM I: Front and reverse of a statement sheet which a prominent city bank asks its applicants for credit to fill out completely. Every one of these items has a bearing on your ability to get credit. The more business-like and complete the statement offered, the better impression it makes upon the money lender

said. "We do not loan on real estate or on factory equipment. Here is what we shall have to ask for: (1) a statement showing what you have done in the past six months; (2) a list of your accounts receivable with all information you can furnish concerning the firms that owe you money; (3) facts about yourself, your capital, stockholders, officers, stocks of goods, organization, system of accounts and cost keeping, insurance, advertising, buying and sales organization."

The manufacturer went away with an entirely different viewpoint. He made up a list of his accounts receivable. On every big account he gave the rating and financial condition of the concern, showed how much they owed, how long the account had run, the average time in which this firm had paid before.

He proved that his customers were mostly solid concerns who paid on long time but regularly. He showed that his accounts payable were more than covered by the raw material at his plant. Then he explained to the banker his organization, his various production units, his selling plan; he pointed out his costs, his small selling expense and his safe margin of profit. When the banker had this information he was quite ready to make the loan.

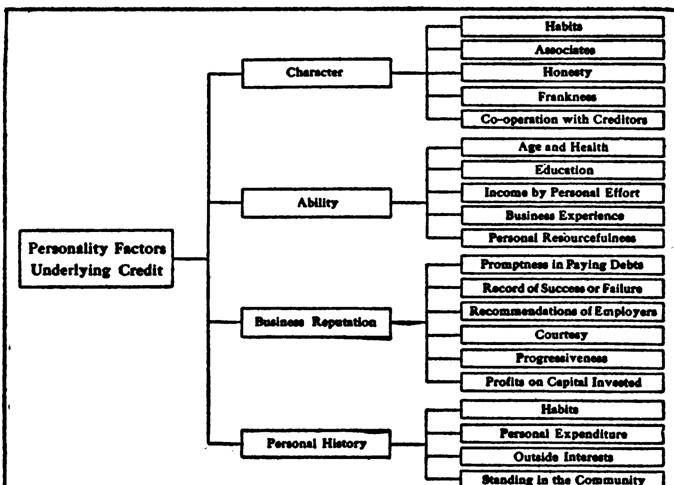
The information demanded by the supply house credit man is no less complete and exacting than that required by the banker. Whether you are buying nails or cement, fruits, drugs, or raw material, such as steel, iron ore or cotton, the same facts concerning personality, condition of business and assets control the decision.

In this chapter is shown the blank required to be filled out by every applicant for a loan at one large city bank. This statement makes you dig down to the blunt reality. In country banks the credit information is

more a matter of general knowledge and is obtained with less formality. But in both cases the demands are the same.

Items That Should Have Prominence in the Statement of Your Business

The details of the information wanted vary to a certain extent. Some banks place emphasis on all facts concerning ability and integrity, while other banks emphasize assets. What your statement should show depends largely upon the kind and extent of your business.



No security exists which does not suffer fluctuations in value. A well-balanced and powerful personality, favorable in all the details here listed, stands very high in the estimation of men who offer credit

A corporation statement should comply with the following requirements:

1. It should be made out complete in detail and preferably certified by a public accountant.

2. It should take up capital stock, preferred and

common. It should give details concerning history, ownership, legal aspects and dividend policy, and should show the surplus belonging to the shareholders.

3. It should include a series of inventory tables giving merchandise, prices, real estate values, accounts and bills receivable and payable.

4. It should give detailed tables of income and expense; also the annual and average profits.

5. It should contain a list of creditors, with amounts and dates due, and the names of the officers of the important corporations to whom money must be paid.

6. It should include a list of the amounts of insurance carried in different companies.

7. Individual records of the applicant's officers, including age, salary, business record, duties, life insurance payable to the company, liabilities, outside interests, health and education should also be shown.

The statement of a small manufacturer, merchant or professional man is less complicated. Any statement, however, should show in particular the record for the past six months; accounts receivable; accounts payable; capital, stockholders, officers, stocks of goods, organization, insurance, together with any significant facts that apply to the particular business. Upon such a basis, financial accommodation may be assured to the maximum of good business practice.

IT is not prudent either from the standpoint of the borrower or the bank to have the bank supply money for investment in a plant or in real estate. —*George E. Roberts*

CHAPTER VIII

How to Build a Reputation That Assures Credit

ESTABLISH a credit standing!

No concern has enough money to escape consideration of this question. Too much money in a business means little or no profit from the investment. Too much credit is unheard of, except where the privilege is wrongfully used, and then credit is soon lost altogether.

You should spare no pains to prove your stability to your creditors. Use diplomacy; use every honorable method within reach to have credit brought to you. Do business in so progressive a manner that you will be asked to accept credit.

In building up your credit standing, you should understand the importance of little details, and make conscious efforts to show up those that are of value. Consider first, the importance of superficial appearances of prosperity and strength. Small creditors, local tradesmen and those who supply the everyday necessities of office and store especially rely upon the prosperous manner and appearance of the man with whom they deal.

An eastern concern decided to start a branch in an Arkansas city. The firm was developing fast and a

full line of credit was always in use. There was great temptation to economize on office rent and fixtures. The firm reasoned, however, that especially from a credit standpoint, retrenchment here would be poor economy. The offices finally chosen were in a building where several powerful concerns were located. The fittings of the office, as well as the location, implied such prosperity that small creditors granted accommodation eagerly.

Appearances are important. A mahogany desk has delayed the presentation of many small bills and a bird's-eye view of "our factory" effectively hung where all may see, will often extend credit. Back of appearances, however, must lie the solid, consistent business power which never fails of obligations and integrity.

Building Up a Credit Standing through Frankness in Dealing with Creditors

Especially in a new business absolute frankness is a requisite of credit. Show your creditors facts concerning the condition and prosperity of your business; tell them why you need long time; explain to them exactly the basis on which you buy and sell. If you ask for sixty or ninety days' time, show why it is advisable to have the money for that period, how you will profit by the loan, whence you have the future income to meet your bill.

The business of a southern manufacturer has grown very fast in the last five years and his capital has never caught up with his needs, but the credit he has secured has more than compensated for the lack of capital. Whenever he asks for more than the usual thirty days' time he explains to his creditors exactly why. He shows that the purchase on which time is sought will not bring a return for at least as long a time as the

credit asked. For instance, if he buys material whose processing is very slow, so that there will be no return short of three to six months, he asks ninety days. If he intends to put out a new line upon which he is going to give his customers long time—four to six months—he asks corresponding credit. This shows the creditor that he is supplying money only for temporary needs or opportunities, and it also impresses him with the fairness of the debtor.

These are some of the means by which credit may be consciously cultivated. Credit standing is being developed month after month by shrewd merchants; but will not grow of itself. To build it up requires daily attention to the credit and other management factors of your business.

How You May Lose Your Credit Standing through Abuse of Credit

Your credit established, the most important advice is: *Never abuse it.* Make extraordinary efforts to meet just demands at the time you have set. It is not always possible to meet a bill on the date it is due or to pay a note on maturity, but never let these payments go by default; do not wait until the collector is at your cashier's window. Foresee and foreplan.

Management regards not only sales, buying and expense, but also accounting. You should keep a record of amounts payable so that you will have an absolute check on notes due; you should handle disbursements to take care of these amounts before everything. With your financial condition well in mind, then, if you cannot meet a note, take up the matter with your creditor and come to a definite arrangement to extend the note, to give new notes or to make part payments.

The same holds true of open accounts. Settle the terms on which you buy before you place your order, then observe these terms. Never tell a collector to "call tomorrow," or that you will "send a check," when according to the terms of the sale, payment was then due. If you cannot pay a bill when due, say so at once, and either set a definite date and then observe it, or ask that the matter be taken up again at a specified time.

In regard to your bank balance, conservative bankers contend that twenty per cent. of the amounts of your loans should be kept in the bank as a non-interest balance. This is evidence of good faith, and offers a fair margin of safety to the bank. By maintaining a reasonable balance rigorously, your credit is strengthened.

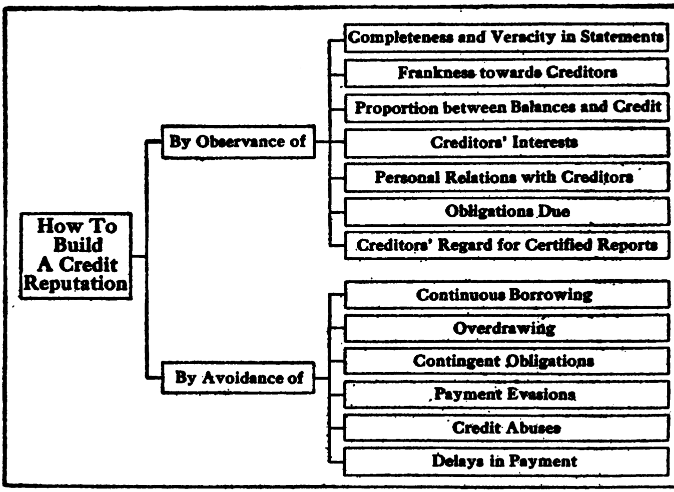
When you deal with the bank, understand and respect the rules that its interests make necessary. Do not ask for accommodation it cannot grant. Comply, on your own initiative, with all the reasonable requirements of your creditors, whether you are dealing with banks, supply houses, or private investors.

Business Methods by Which Shrewd Financial Heads Steadily Strengthen Credit Reputation

Merchant and factory men versed in finance have worked out a consistent plan of credit building. Points of business policy in line to this end are:

1. To submit an accurate and detailed statement of affairs at least once a year to the bank. In the case of a manufacturing concern, or any large company, the statement is best made by a reputable firm of certified public accountants. It shows all the essential details of the business, disclosing losses from bad debts, contingent liabilities, the ratio of expenses and profits, the gross volume of business.

2. To fix the maturity of your obligations so that you can meet them promptly when due; neither to ask nor to expect to borrow continuously; in so far as possible, to maintain balances on deposit in reasonable proportion to the credit sought.



The credit reputation of many experienced business men is a powerful financial tool and an important asset in times of money need. Such a reputation is the result of unfailing adherence to the principles here outlined

3. To avoid overdrawing your account. When it becomes necessary in emergencies to do this, the overdraft can be arranged for in advance.

4. Never to give checks in excess of your balances, even with the understanding that they are not to be presented until tomorrow or next week; nor to send checks to distant points in the expectation of making them good before they are presented. Never to exchange checks for your own benefit or that of your friends; never to lend your credit in any manner, whether by the indorsement of paper or by going upon

surety bonds. If you should incur such obligations, you should at once inform your bank.

5. To show a willingness, in your dealings with the bank, to leave it a fair margin of profit. It is wise to make your account as valuable as possible to the bank, to cultivate the acquaintance of the officers personally and to show a disposition to advance its interests in every fair way.

6. Never to be too optimistic on the one hand, nor enshrouded in gloom on the other; to conduct your business with the bank in a quiet and business-like manner.

Remember that a good credit standing is an asset, and only proper use and cultivation covering your business career in its entirety will develop this asset to its best.

Confidence before Credit

THE cardinal virtue most important in the establishment of credit is veracity. Veracity or truthfulness carries with it by implication the possession of certain collateral traits which are essential to business success. It cannot fail to command the confidence of the banker, without whose confidence no business man, even though possessed of abundant tangible property, may hope to establish and maintain a permanent basis of credit.

Part III

EMERGENCY METHODS OF FINANCING

Resources That Count in Tight Places

BUSINESS incapacity, linked with abundant capital, usually goes to wreck. But resourcefulness often wrenches profits from financial destitution, and practically assures the success of a well-backed enterprise.

Every business has certain intangible factors which your resourcefulness should fasten upon and develop into unique assets. Personality, selling ingenuity, an advertising test, factory inventiveness, a trade mark, a trade secret, a neglected opportunity or field, the possibility of definite profits on a future transaction—these and other factors which clever business men are continually unearthing often solve the situation when money fails.

The man who starts big comes to failure through unknown—unlearned—duties and problems. He has never developed those final assets of business skill and knowledge upon which financial success is most easily reared. If in mid-career your business comes to a tight place, therefore, look back at the years of business expertness you have been accumulating—look about at the productive power your enterprise embodies. These are assets more important than money—assets which can not be bought.

Even the enterprise that has gone down in failure still has these assets. Moreover, it knows as never before that certain of its practices must be changed. Quick recovery in case of business failure—growth for the new enterprise—progress for the hard pressed business, all depend upon learning from mistakes and profiting by these invisible and intangible assets, even more than upon capitalizing the accepted resources of finance.

HOW TO FINANCE IN EMERGENCIES

- **Close Financing**
  - **Building on Small Capital**
    - Secure Additional Loans or Investments Based on
      - Your Ability
      - Your Experience
      - Your Technical Knowledge
      - Your Business Prospects and Patented Ideas
      - Appeals to Private, Business and Public Interests
    - Make the Profit Chances Count by
      - Keeping down Fixed Investment
      - Quick Turnover of Working Capit
      - Widest Safe Use of Credit
      - Keeping down Expenditure
      - Expanding from Profits
    - Establish a Credit Reputation through
      - Attention to Personal Standing
      - Proof of Business Progress
      - Correct Credit Practice
  - **Handling Finances in a Pinch**
    - Increase Income by
      - Tightening Collections
      - Closing out Stock
      - Converting Fixed Capital
      - Speeding up Sales by Schemes and Advertising
      - Reducing Expenditure
      - Stopping Leaks
    - Get Extensions of Credit by
      - Demonstrating Business Prospects
      - Reforms in Management
      - Offering Further Assets as Security
      - Showing Increased Value of Assets
      - Appealing to Allied Interests
      - Showing Creditors Disadvantage of Foreclosure
    - Interest New Capital by
      - Demonstrating Future Profit Chances to Investors
      - Playing up Interdependence of Interests
  - **Building up after Failure**
    - Raise More Capital through
      - Use of Remaining Credit
      - Mutual Interest Appeal to Creditors
      - New Credit on Business Prospects
      - Sale of Partial Control
    - Avoid Past Dangers by
      - Assuring Sufficient Capital
      - Restricting Fixed Investment
      - Finding an Opening
      - Building Slowly
      - Limiting Credits
      - Controlling Expense
      - Assuring Quick Turnovers
      - Providing against Contingencies
      - Reforms in Management
    - Build New Credit Reputation by
      - Conservative Beginning
      - Expanding Gradually and from Profits
      - Keeping to a Familiar Field
      - Indicating Business Experience by Good Management
      - Demonstrating Insight and Caution Acquired through Failure

Under stress of scant capital and money troubles, it becomes necessary doubly to test every step for safety and profit. The correct measures of control and the recognized means to these ends are here suggested

CHAPTER IX

Building a Business on Three Figures

CARLSON had five hundred dollars and an idea for a kitchen cabinet: Seven years later he had a fifty-thousand-dollar furniture factory.

Gates was a clothing salesman who had less than one thousand dollars. He invented a scheme of selling clothing at a dollar down: Within ten years credit to the small salaried person made him a fortune.

A traveling salesman went into business and paid cash for small lots of goods. Low prices and quick turnovers enabled him to treble his capital in the first year. Seven years later he was worth a hundred thousand.

A printer made partners of his chief employees: By the deduction of small payments on their stock from their weekly pay envelopes the business quadrupled in two years because of expert workmanship thus interested.

These men had ideas—clever schemes or points of manufacturing or retailing or wholesaling—but they would still have failed had they not done keen, astute and concentrated financing.

Peculiar money problems come to the man who wishes to take advantage of a business idea, who hopes to protect himself from competition and to build up, rapidly,

yet who has only a few hundred dollars capital. First of all, additional capital must be found—and this must usually be done by an appeal to interest or confidence rather than upon a basis of securities. Capitalizing experience, ability, or technical knowledge in the line of the proposed work is one method. Borrowing by an appeal to business and public interests, as in the case of the man whose factory is an important aid in building up the town, is another way of securing temporary funds.

Gilbert, a New York newspaper man who made a fortune in the real estate business, borrowed on his business prospects.

He noticed that the first floor of a desirable business block was seldom rented because of the forbidding, old-style exterior. He paid eight hundred dollars for a quarter's rent of the floor and secured an option for a ten-year renewal of his lease; then he went to an architect, had a new store front designed and cut up the floor into seven shops. By showing the blue prints to proprietors of small stores, he secured tenants before the work of remodelling began. Money borrowed on leases, signed by reputable firms, paid the contractors. The income of three stores paid the rent and built up a sinking fund covering the cost of remodeling. The rent of Gilbert's four remaining stores was net profit, and in ten years amounted to twenty-five thousand dollars. With this as a basis, he advanced to assured success in real estate work.

How to Get a Quick Start and Make Your Money Count on Essentials

The standard by which the beginner in business is measured is the rapidity with which he builds. He must

make every profit chance count without departing from a plan of economy and wise spending. The cardinal rules which have built up the small business conservatively but quickly, are:

1. Getting an economical start by keeping down the fixed investment.

2. Guarding the income by eliminating credits and watching collections.

3. Making capital grow by a shrewd system of quick turnovers of money invested, and by reinvesting profits.

4. Protecting finances doubly well by avoiding every possibility of a difficult position until sure of capital and ability.

Rents, leases and real estate buying questions often mark the line between profit and loss. Two Philadelphia young men hesitated about entering the wholesale grocery business in their city on account of high rents in the downtown section. When almost persuaded to postpone their plans, one of them noted the business activity in an outlying district and conceived the idea of establishing the store in that locality. The rent was one-fifth that of the downtown location, but the idea of establishing the wholesale store in the suburb seemed revolutionary. The scheme was tried, however, and the partners met with instant success. Hundreds of retail grocers flocked to them to save the long haul. The two partners had substituted special service for location and the difference in rent made their first year safely profitable.

Limiting credits and watching collections must be a prime consideration of the small proprietor. External appearances often indicate the prosperity of the man who asks for credit, but his prosperity is by no means an indication of his willingness to pay. *Look up un-*

failingly the credit standing of the man who proposes to postpone payment. If his record is bad, refuse him. The customer lost will be dollars saved.

For the small manufacturer the cash on delivery system, if diplomatically carried out, lessens collection costs and insures payment. A printer on the Pacific coast kept his shop busy on orders which seldom amounted to more than five dollars. The expense of collecting small bills was heavy and creditors frequently passed the printer's account because of its insignificance. To get money quickly the printer followed a scheme of attaching a bill to each order of job work when it was wrapped for delivery. The amount due was so small that it could be settled without draining the cash drawer and the full payment was generally brought back by the delivery boy.

Every small business which has achieved success has followed some principle of quick turnover of capital. A Chicago salesman who entered the dry goods business, adopted a plan of selling out all slow-moving stock to west side peddlers every Sunday morning. The cash paid for the job lots of goods earned a profit the next week in the business.

The general manager of a chain of retail stores, by a scheme of turning over capital, attained affluence in less than a decade. He began business in a town near Chicago and every evening ended the day with a study of his stock. Orders mailed or telephoned to Chicago jobbers kept the store full of the goods which were in eager demand. Because of limited buying the few "stickers" on hand represented only a negligible fraction of his small capital. While small orders made it impossible to get the lowest prices, this loss was more than counterbalanced by repeated profits.

"Buy light," is the first rule laid down by this merchant. "Find, by watching the way goods move over the counter, where profits lie. Weekly, or even daily orders to replenish stock are better than shelves crowded with goods that look like sure sellers in the jobber's salesroom, but really have no appeal to trade.

"Watch the salary list also. Payroll expense is one of the heaviest costs of a business. The beginner must allot himself a frugal salary and give overtime to the selection and training of low-priced but promising applicants.

"Brass and oak and mahogany make a store attractive, but fixtures are not the first essential of profits. Quick turnover of goods makes for fresh stocks and right prices—the ultimate appeal to the consumer."

How to Minimize Financial Risks and Difficulties during the Infancy of Your Enterprise

Among the chief causes of bankruptcy are insufficient capital, incompetence, inexperience, unwise credit, failure of others, extravagance and speculation—every one a plague upon the small, struggling enterprise. More than half the chances of success for a small business depend upon its admission that it is weak financially and must protect itself in every fair way from financial flurry until capital and stability are assured.

Just as the beginner must "build to windward" in every possible manner — by increasing his capital through every profit-making plan, by laying up a cash reserve and by gaining a high place personally in the regard of creditors and customers, *so he must rigidly avoid and insure against every risk and contingency.* Short capital is another term for undertaking too much—for incurring liabilities that were unwise—for signing notes

without mathematical assurance that the funds would come in to meet them. Unwise credit, and the failure of others, brands the small business with attempting to take the same risks that the great, established enterprise finds heavy. The little businesses that have grown fast are cash stores. "Let the big shop keep its vault full of bills until fashionable customers come back from summer and winter trips," said a dry goods man; "my capital is small and I have to have a profit on it five times a year just to make a living."

Extravagance and speculation, with incompetence and inexperience, come under the same heading, of *risks that might have been avoided.* Just as the farsighted merchant protects his assets at the start by liberal insurance, so before he launches into any new phase of his business he insures himself by test that it offers an excellent chance for profit.

Hundreds of small businesses have been saved by testing out contemplated sidelines, new selling plans, new advertising devices, new delivery methods, new accounting schemes and new phases of the problem of store or factory help. Ignorance of this rule caused the ruin of a western clothier, who, after getting a fair start, planned to profit by dull season opportunities which a chance salesman described to him. He installed a sporting goods department, but the ability which had made him a successful clothier did not adapt itself to this line and he failed. Had he tested his idea by catching "drop-in" trade, he would either have learned his mistake at a slight risk, or would have acquired, by degrees, the experience which insured success.

The beginner in the business field will be watched more closely than he realizes. He will be less able to bear financial strain than other men, but more certain

to suffer it whenever he takes chances. For the beginner, these rules have been laid down by a man whose practical success has covered several lines:

"When you enter business, make the most of your fresh point of view.

"Reduce each problem to its elements—reject the nonessential.

"Make swift credits the basis of your selling plan. Make your collections, not your banker, carry your business.

"After good goods, service is the first essential to good trade."

The peculiar responsibility of the beginner who would score quick success may be summed up in the sentence: More rigidly than any established business, *avoid risks, enforce economies, make personality count with those about you, keep the fog away from your accounting system, and, as far as possible, let no financial problem get to you unforeseen.* These principles, linked with a good proposition, have rarely failed of success.

Personality in Business

PERSONALITY is the chief factor in building a business, because personal power is the strongest bond between men, and a unified organization is chiefly the result of that same power—personality.

—*George H. Barbour*

CHAPTER X

Handling Finances in a Pinch

JONES, a clerk, had saved some money. He decided to start manufacturing ice cream in a large eastern city. There was competition—fierce competition—but he had a plan which he thought would insure success. It was to establish a reputation for *absolute purity,* a quality which recent exposures had shown to be strikingly absent from the product of competing firms.

Jones' enterprise was successful from the start. His reputation grew fast. His name alone came to be considered a guarantee. The business so exceeded his anticipation that, although he was an unusually hard-headed business man, he made the fatal mistake of investing too much in machinery and fixed improvements; that is, he stretched his credit too far for slow returns.

The cold weather came earlier that fall than usual. Jones' business fell off. He had a large plant, machinery and other assets, but they were now of little value as security. His credit situation became desperate, and one day an order for goods failed to come. Then came a period of emergency financing and a search for credit.

One evening, early in November, he reviewed the situation with his wife.

"We must get some money," he said, "or our business career is over. But I don't know how we can do it. I have cashed already on everything I have."

"Well, try Brooks. Ask him what our trademark is worth."

"Brooks! He would be glad to celebrate my bankruptcy."

"Brooks knows better than anyone else just what our business is worth. He would give a good deal to get it. We are facing bankruptcy. He knows it as well as we do. I think he would consent to a loan if he thought he had a chance to get our business. If we get the money, we can substitute winter catering for the ice cream we can't sell. We can use our reputation that way."

Brooks was surprised one day to see his chief competitor enter his office.

"We had a hard fight last summer," Jones began, "and, as you know, I'm about at the end of my rope now. But I have a proposition—lend me $8,000 until January 30th at eight per cent. I will contract, in default of payment, to surrender to you my trademark, business and good will. If I pay, you lose nothing. If I don't, I quit the business and you head the list."

Brooks thought a while. He had followed Jones' financial situation. He was sure that Jones could not pay the note when due; that if he did not accept the offer, one of the other competitors would, and that he would suffer from competition again as he had during the previous summer. He knew nothing of Jones' plan to substitute a new line. He granted the loan.

With this money, Jones adapted his places of business to the making and sale of refreshments that are in demand during the winter months. He took advan-

tage of his reputation and the Christmas shopping rush. Brooks' loan was paid when due. In the spring the old ice cream trade revived. Jones paid his creditors. He had passed the danger point.

When you are in need of money, remember that it is not what *you* think your assets are worth, but what others think they are worth, that counts. You may know that your stock is valuable, but everyone may not. You must be sure that the person you ask for a loan on that security knows something about it. *Regard your assets from the lender's point of view.* It is the only way to get the most from them.

Temporary financial difficulties are due:

1. To mismanagement.
2. To lack of financial knowledge.
3. To general financial stringencies or panics.
4. To crop failures or other natural causes.
5. To lack of sufficient capital.

Your ability to deal with these situations depends upon your resourcefulness—your ability to use what you have to best advantage. Tangible assets are most generally appreciated. Intangible assets are often overlooked. If you have an established business, good will, future prospects, a trademark, life insurance, a lease on a good building, personality, character, experience, reputation, publicity, knowledge of markets—any of these may save your business—and the list is far from exhausted.

How a Temporary Financial Difficulty Was Overcome by Increasing Production

A large piano house in a southern city daringly enlarged its business. The owner had always financed carefully. On this occasion, however, he admitted that

he had extended his business beyond his capital.

One day he and some of his associates went over their situation. They made a complete list of their assets and their liabilities. They were careful to note just how much money they would have at every given time. In ninety days, several large notes were due. They saw that they would not have enough money to meet their obligations.

The first plan suggested was to increase sales. The firm had, however, anticipated high sales in making its calculations and it could not see how, without adopting some entirely new schemes, it would be able to cover the deficit.

After repeated conferences and a week of consideration, the president offered a solution.

"I have a plan," he said. "We'll start publishing music again. This line never made large profits and had to be dropped to enable us to care for our heavy trade in instruments, but we still have the plates, which caused our greatest expense. We can use some of them again, and the margin of profit should thus be increased. We have a list of high-grade customers who would go in for an edition *de luxe.* We will put out advertising and selling tests at once. On the security of the first successful test, we can get two volumes printed. We can deliver these volumes in ninety days and get one-half of the cost of the books as the first payment. The profit on the deal will cover the notes. When the second payment is made, we will have enough money to pay for the publishing work."

The plan was carefully considered. Test advertisements were run in leading papers so that the firm was able to estimate the demand for the edition. The idea was finally adopted and proved successful.

Again in this case, it was only the ability of one of the members of the firm to understand the situation and see what could be done with its assets. The plates had practically no value as security; not a cent could be borrowed on them. But there was a way to realize something from them; it was a question of knowing how.

Personal resourcefulness is only a name for business judgment and knowledge of financing. It is not a method of getting capital in itself—capital cannot be conjured out of the air—it means ability to see what you have and ability to use it.

The owner of a canning factory, whose business was long established and whose name represented years of trade building, faced a liquidation. A note for $5,000 was due. The company could neither meet its obligations nor secure an extension.

The manufacturer went to one of his largest creditors. He spoke without any appeal to sympathy. He presented a purely business proposition.

"I have a note coming due this week," he said. "I will either have to meet it or liquidate. My business has got into a bad hole, solely through that failure of last year's crops. The prospect for this year is good. My product has a ready market. If I am obliged to liquidate, you will lose as well as I. My trade is established and is worth more than all liabilities, but it is about to be sacrificed."

The creditor made a complete investigation of the business of the factory. He arranged for a conference with several other creditors. They decided to have the note extended to avoid the liquidation.

These money difficulties were overcome by ability to cash on intangible or apparently worthless assets—a trade name coveted by a competitor, apparently obsolete

property in the form of electrotype plates, a reputation and future selling prospects which held for creditors a warranty of payment.

Many firms which liquidate are solvent; except where the business has been grossly mismanaged, knowledge of financing could almost always save them. There is one principle which holds good in every case. It concerns foresight and forethought, making the most of assets, discovering hidden resources, ability to appreciate the value these assets have to others, or in what way they are of value, and ability to use them accordingly.

Face the Crisis

WHEN the crisis has come, many a business man has lost his head and gone under, although courage, resourcefulness, and a shrewd plan of campaign would have carried him through. Resourcefulness means ability in discovering new schemes to increase income or credit, to find hidden assets, and to capitalize assets to advantage.

CHAPTER XI

How to Make a Fresh Start after Failure

WHEN one evening the final formalities in bankruptcy had been concluded, White, a machinery manufacturer of the middle west, closed his desk, put his feet on the table and, meditating, lit a cigar.

Bit by bit he put together the story of the past eight months. When he had started, he had invested all of his money in his factory. Raw goods needed were bought on credit and he borrowed from banks to meet his payroll. His liberal terms to jobbers had flooded his plant with orders. Then, in spite of prospects for a money-making future, his creditors had grown uneasy and closed in. White attempted to collect from his customers to meet his bills, but only a few of them were able to pay in less than sixty days. The time was twice too long. He had assigned.

"If I only had had more capital," he mused; but then recalled that when he had opened for business his capital had seemed ample. "Ample"—yes, that was exactly the trouble—his supply of money had seemed more than enough to meet every demand. It had seemed unnecessary to limit his credits either in amount or in time; indeed, it had seemed good manage-

ment to give extra inducements to buyers in order to fill his plant with orders and set at work the ample capital in hand.

As he meditated, his mistake in financing took on these definite outlines, and reforms which would have saved the business sprang to his mind.

"I could make good if I were back three months," he concluded. "How can I get another chance?"

Before he left the office that night he had sketched out a plan of reform and reorganization. First, he noted down the main factors in his former financial policy, challenged those which he now considered dangerous, and indicated the changes he had determined upon. Next he formulated a scheme for collecting from his slow pay customers. These evidences of having learned from his severe financial experience he determined to put before his bankers and creditors.

At the end of three weeks he had collected enough conclusively to demonstrate the genuine value of his accounts receivable. This showing, together with his plan of reorganization and the opportunity to secure his exclusive financial patronage, induced one bank to advance the sums White needed to resume business. The bank also influenced the other creditors to postpone foreclosure awaiting the outcome of the new venture. Business was resumed, and by gradual growth, with the coöperation of the bank and creditors, achieved success. White had solved the difficult problems of finding new capital; of analyzing his failure and correcting his mistake; of getting a new credit chance through frank acknowledgment of his errors and definite evidence that he had profited thereby; and, finally, of building upon his shattered credit a new and enduring reputation for business soundness.

Ninety-five per cent. of business men fail. Of eleven thousand failures, as listed by one of the large mercantile agencies, one-third were due to lack of capital. Incompetence, the second cause, has practically the same sum of failures traceable to it. Inexperience, unwise credit, competition, fraud, failure of others, extravagance and speculation were other listed reasons why men were compelled to close up shop.

A majority of the failures step back to the ranks from which they rose. Many of them might have resumed, had they analyzed the causes of their downfall and profited by the experience. Many others might have rebuilt in months, where it has taken years, had they learned how to handle every financial factor with a margin of safety, but with expert efficiency in profit making.

Study of the careers that have built success on bankruptcy is a financial education. Rogers, a factory head, found after failure that his product had cost an unseen fifth more than he had anticipated. He had sold goods steadily at a loss. After challenging and tightening up his system of cost accounting, he prospered. Steinfeldt, a hardware retailer, bought a carload of stoves too expensive for his trade. Study of the retail situation and reforms in his buying mended the fabric of his business. Gregg, a cigar man, was forced out of his location when the building was torn down to give place to a sky-scraper. His customers failed to find him in his new location and he was forced to the wall. By taking his books to his banker, however, by demonstrating the unavoidable nature of his handicap, and by producing an option on a shop in the new building, he got sufficient support to resume business.

Rebuilding in each of these cases was a problem

(1) of financing; (2) of good business management. Each man shrewdly analyzed the causes of his failure and adopted definite plans of reform. With this evidence that they had learned, that they had the persistency and the integrity to face out the situation, they took up the problems of getting more money and reestablishing their credit standing.

Where to Go for Money with Which to Try Again after Failure in Business

How may the bankrupt, enfeebled financially by some apparently unavoidable catastrophe or beaten down by the results of his own faulty financing, get the funds and the chance to try again? Practice indicates two classes of resources that remain after failure:

1. Some fragment of credit—some confidence which still exists in the mind of a banker, creditor or private investor.

2. New credit and confidence which the assignee may establish in the mind of someone by a frank presentation of his case, indicating an unavoidable cause of downfall or mastery of the business forces that formerly overpowered him.

White's remaining resource was the interest his creditors had in him because they believed that eventually they would get their money back and because his collections strengthened this belief. Gregg's remaining credit depended upon the security and the profit chance represented by his option of desirable store space in the new building on his old corner.

Credit may be had on the business prospects that still remain after bankruptcy; confidence remaining or reestablished in the minds of acquaintances may induce new partners or stockholders to contribute fresh cap-

ital. A man with determination rapidly to regain footing lost by bankruptcy looks for those whose interests are his own and who have most to gain or lose in his success or failure. The problem resembles that of the salesman; to make your application for additional funds attractive through all possible profits, appeals and concessions is to find the answer. Even when obvious sources of money have been tried in vain, possibilities of new capital may be located by checking over every individual and corporate interest concerned with your enterprise.

Parker, a manufacturer of machinery in the middle west, confronted a problem which, viewed from any angle, seemed impossible. Fire destroyed his plant and the insurance money, which under ordinary circumstances might have been sufficient, was eaten into by living expenses during a long period of delay in rebuilding.

Every possible item of credit seemed to have been exhausted in an attempt to avert the crash. When he emerged from receivership all usual sources of capital seemed closed to him. But to the last he had given employment to his men, and they now evidenced their loyalty to him. He determined to appeal to them for temporary funds. He spoke to them of the mutual interest of master and man; he pointed out the prospect of steady employment and the advantages of staying in the little city where they owned their homes, reminding them that each would lose hundreds of dollars if forced to sell out and seek employment elsewhere. His workmen were not slow in realizing that this industry was the backbone of the town. All volunteered to accept half wages for a short period, and many advanced small sums from their savings accounts at ordinary

interest. The few thousand dollars so secured enabled the manufacturer to bring his finances under control.

How to Reestablish Your Credit and Build up a Reputation for Sound Business Judgment

With money at hand for reorganization, every day in the years that follow brings anew the two-fold problem of enforcing reforms that safeguard your business from failure, especially at those points previously left open, and of developing the sort of reputation which gives greatest strength in financial operations.

A grocery clerk, having bought out an established business in a town on the Great Lakes, attracted favorable attention by his aggressive campaign to secure new customers. Shortly, however, his unpaid bills for goods reached a total which alarmed his creditors. He seemed bewildered and unable to find ready money; his creditors closed in, and he assigned.

The assistant credit man in one of the wholesale houses came to aid in his settlement and at once showed the grocer that lax collection methods had trapped him.

"Do you know," said the grocer, "I have puzzled my head off over how to get in the money due me. I am a salesman, but no bookkeeper. If you would put in enough money to get the business on its feet and would take charge of the accounting and collections end, we could make things hum."

A partnership was formed with limited credit, firm control of expenses and modern collection facilities. Every possible dollar was put into quick selling stock. Records were kept to indicate the best sellers, and within a year, all debts having been cancelled, a small reserve was established against contingencies. Of chief importance, however, was the fact that in this short

time the concern had become widely known for the precise balance which existed between its selling forces and its administrative factors. The credit of the firm, besmirched by failure, had quickly been cleared and accorded a high standing among bankers and wholesalers.

Failure challenges over again those principles which underlie correct management in any business, whether in the supply and investment of the capital, in the soundness of the proposition and the location of the plant, in the handling of expenses and credits, in the assurance of profits or in protection against the future. To build a new credit reputation demands observance of these principles so strict that the keen scrutiny of creditors shall be satisfied. The business man who understands the basis of finance will therefore make his new beginning conservatively, keeping to a familiar business, and, under ordinary circumstances, to a familiar locality. With correct practice and sound, gradual growth, time will be saved in the reorganization, and money made.

Permanent Credit

TRUE credit is built only through fair representation. This is the credit that stimulates industry, inspires confidence, and creates a healthy activity. —*Henry Clews*

CHAPTER XII

Don'ts in Money Matters

IGNORANCE of financing and misuse of credit caused the failure of a large drug business in a western city. To establish the business, the proprietor secured a loan of five thousand dollars from his banker on a promissory note. It was not a conservative loan. The banker granted it on the strength of the druggist's argument, and because he hoped to build up a good new account. The druggist also secured an additional $5,000 from another bank on the basis of a favorable lease. This gave him ten thousand dollars cash—money borrowed entirely on his personal qualities and on his business prospects.

He started his business with a splurge. At first sales were heavy. Shortly after the opening, however, a slump came. Because of the falling off in trade, he moved to another section of the city. By doing this, he sacrificed the initial advantage of low rent, destroyed the security of the second five thousand dollar loan, and shook the confidence of his banker by this confession of bad judgment. Although sales increased, the climax soon came. The enterprise was like an inverted pyramid, and a little pressure from creditors made it topple over.

The first necessity in a new business is to understand fully the nature of the different sources of capital. The money the druggist secured should have been obtained, not from the bank, but from his own funds or from a partner, from an issuance of stock, or from long time loans. By persuading the banker to violate an established banking policy, he compassed his own failure. As a last mistake, he ruined his credit standing—his only asset—by allowing the spread of the bad impression made by his misjudgment in regard to his lease.

To mistake the nature of money obtained from different sources is to invite failure. Try to avoid short time loans unless protected by quick assets. Do not put bank money into fixed improvements. Reserve your bank accommodation for short time needs. Moreover, you should keep your outlay within your capital. If your capital is small, start small. Establish your credit by maintaining a policy of conservatism and financial security. Too much capital invested in fixed improvements; unwarranted expansion; stretching credit; extending too much credit to customers; failure to keep an efficient check on the business, are the chief difficulties in financing any business. Ability to recognize these dangers, and to profit by the experience of others are the safeguards that the successful business man will cultivate.

An average of more than 3,000 failures a year in the United States are ascribed to insufficient capital. In most of these cases the fault is not so much a lack of capital as the folly of going beyond capital.

A competitor entered the field of a merchant in a small western town. The old established merchant was not so much afraid of losing his trade as of seeing the other man have a bigger store. "I'm going to beat

Jones," he boasted to his friends. With this end in view, he stretched his credit, and unable to meet bills due, his business collapsed. He had failed to see the danger signal.

Necessity — and that alone — should underlie expansion. When a business is thriving, and customers are clamoring for more goods than can be sold or manufactured conveniently, or for greater variety than present facilities afford, then is the time to let the plant broaden out if capital can be had.

How Extending Too Much Credit to Customers Ties up Capital and Invites Failure

Unwise credits are seldom recognized until too late. Over-accommodating buyers has the same result as growing too fast, or over-buying. Two young men embarked in the shoe business in a small eastern city. Their capital was small, but trade began to come to the store from the day it was opened, and it was just the kind of trade they had wished for. It included forty or fifty of the best families in the city. Accounts were started and the store soon had outstanding among the best families about two thousand pairs of shoes.

Since all their capital had been used up in the original investment, the outstanding accounts were a serious matter. They knew that they could do nothing to collect from the wealthy slow-pay customers, except to keep sending them bills and wait until they remitted. They knew that many of their customers were in the habit of going away for the summer and that they might have to wait from three to six months for the money.

The firm struggled along for several months, and then, pressed by their creditors and unable to collect from their debtors among the rich, assigned.

The unwisdom in this particular case lies in allowing any credit at all on such small capital. With the money they had on hand, the young men should have confined their business to an actual cash basis.

The influences which are constantly operating to induce a firm to make unwise credits are powerful, and they should be all the more carefully guarded against. Do not grant credit when you have insufficient capital. If you do extend credit, arrange with your suppliers beforehand for long time credit on the basis of your credit business. But in no case should credit exceed one-third of your working capital. An excess of credit granted to customers not only puts a business in a dangerous position from want of ready funds, but it also impairs your credit standing.

How Indulgence of the Borrowing Habit May Be a Cause of Failure

The greatest and most constant temptation confronting a veteran wholesaler in New York has been the impulse to run to the bank for a loan at every sign of financial shortage. Borrowing is advisable only when it is necessary. It is often such a simple matter to sign a promissory note that this borrowing habit becomes a real danger if not kept in check.

Once this wholesaler thought it imperative to borrow ten thousand dollars. He got the money without the slightest trouble. When he returned to the office, he opened his ledger and sat for ten minutes looking at the entry. Trade conditions were not bright. He looked ahead sixty days and wondered if he would have ten thousand dollars to spare when the notes came due.

The next morning he took up the note as soon as the bank opened. He was convinced that borrowing had

become a habit and that in this case it was unnecessary. He put the screws on his collection department, and got up a series of letters to his salesmen asking for their coöperation in bringing sales up to a certain figure during the next sixty days, offering a special bonus for results. In this way he made solid development replace a makeshift financial measure.

When you have once established your credit, guard against the borrowing habit. It is like the drug habit—it grows with indulgence. When you are threatened with a stringency, instead of stretching your credit, follow a policy of entrenchment. Look for leaks—there are always leaks in every business—cut expenses, increase sales. If possible, acquire a surplus to meet these conditions.

Avoiding Future Money Troubles through Knowledge of Financial Rules

Knowing what not to do is often a means of knowing what to do. Bankrupts, failures, "down-and-outs" have learned these don'ts, but at the wrong end of their business careers. Financing a business is like climbing a cliff. The steps are many and difficult. The best safeguard is to know the slippery places.

Don't mistake the nature of the different sources of capital. If you want capital for establishing your business, take in capital either by issuing stock, by negotiating an individual long-time accommodation or by admitting a moneyed partner. Use the bank especially for the every-day needs.

Don't stretch your credit too far. Secure credit in relation to the amount of your quick assets. Be sure that you can meet your notes, then sign them.

Don't misuse your credit. Guard against the bor-

rowing habit. Meet obligations promptly when they are due. Don't overdraw.

Don't misrepresent facts in your statements or in conversation with your creditors.

Don't take partners or large stockholders without testing them as to their ability and character. Prepare in advance for the contingencies that may arise.

Don't neglect details that affect your credit standing. Keep your stock fully insured. Deal courteously with your employees and with your customers. Do not overstock. Keep your goods well displayed. Be progressive.

Don't get discouraged when the business gets into a tight pinch. Ingenuity, resourcefulness, energy have carried business men through difficulties greater than any met in the ordinary course of business. Your chief safeguard lies in the records you keep and your advance knowledge of financial requirements.

Remember that conscious attention to the every-day uses of capital and credit, persistence in "following the rules," and avoidance of common dangers, determine the safety of your business and the character of your ledger balance.

Go Slowly

THE successful business houses are those that have grown slowly and from their profits. They have limited fixed investments, guarded their credit standing and profited by the experience of others.

Part IV

HOW TO MAKE THE MOST OF YOUR CAPITAL

Keeping Money at Work

IDLE workmen draw unearned wages; ill-directed workers draw half-won pay. Money is a workman that figures large on every pay roll; whose wages never halt.

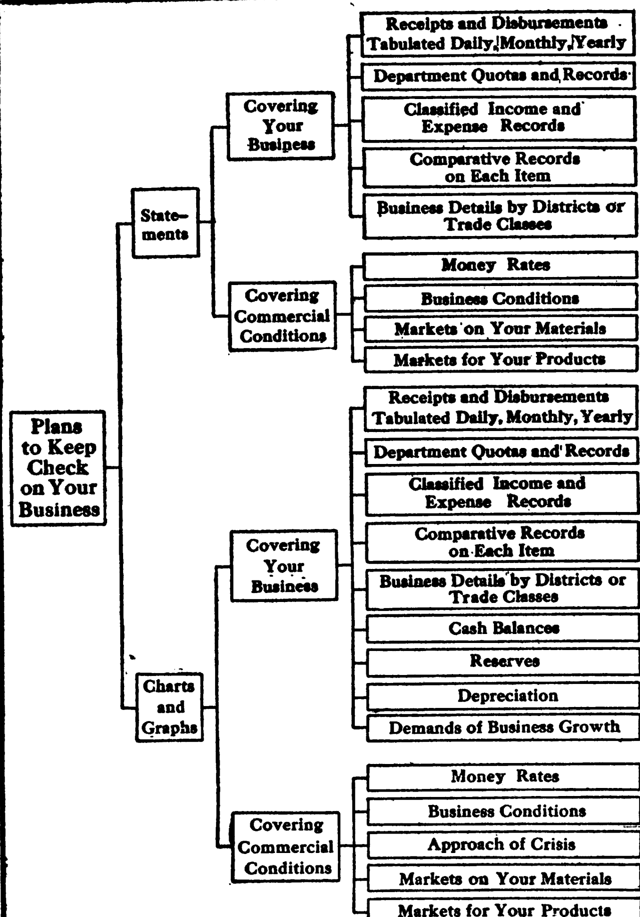
The clever office manager, storekeeper and factory foreman plan and chart the future work of every employee so that it may be uninterrupted, well directed, ministered to by every convenience—constantly profitable. Those who handle money must exercise the same foresight: to be productive, finances must be kept wisely busy.

You must not employ more money than you need, else you have idle funds on your expense account; you must not employ less, else you miss opportunities and fail to meet demands. Cash in hand is not the final, ruling factor in business. It must be hired and handled with foresight and dominant personal force. Drive your investment. Enlist funds ahead to meet bills. Outline work in advance for the surplus funds that certain seasons bring. Know the work before your funds and make your capital produce.

If you have funds beyond your present need, farm them out against future demand, as you would expert workmen in dull times. As you would watch the work of your men, watch for losses and economies in money matters.

Finances will prove an adaptable tool, when your plans keep you in touch with your financial condition, so that time and forethought may go into procuring and using your money.

KEEPING THE MONEY BALANCE EVEN



Definite fore-knowledge of finances may be had by itemized statements, or by charts and graphs which picture money matters. By clever use of these methods keen financiers make every detail and important comparison evident at a glance

CHAPTER XIII

Planning to Meet Your Bills

WILSON, a hardware merchant in a small western town, had laid in a large stock of dishes that he could not sell. At one time, partly as a result of this purchase, he found himself in a difficult situation. He had only thirty days in which to meet a large sum of obligations. As he looked ahead, he saw that his best chance was to close out his stock of dishes. He knew, however, that no ordinary sales scheme would suffice. He could advertise a bargain sale, but his line was not big enough to draw business from the country, and the ordinary bargain sale had been advertised until it had lost all meaning. He adopted the following plan:

He went to all the merchants on the main street of the town and proposed a general town stock clearing sale. He proposed to run a full page advertisement in all the papers of the territory, offering to refund interurban fares to customers who bought goods up to a certain value. The space was to be divided equally among all the merchants. In this way the country people, who were busy with their crops, would be attracted to the store, although an advertisement of dishes alone would not appeal to them. The plan was successful. In two days the entire stock of dishes was sold. The sale en-

tailed a sacrifice of about one-third of the cost price of the goods, but the hardware merchant disposed of a stock that he could sell in no other way, and he also secured the money he needed to meet his bills.

His ability to deal with the situation was due, in the first place, to the fact that he fully analyzed his situation. He foresaw the difficulties that were ahead of him. He kept a detailed record of his business, so that he knew closely how much money he would have on hand and the amount of his obligations at any time. This estimate gave him warning in plenty of time; thought and ingenuity furnished the needed solution to his puzzle.

How to Prepare for Business Needs and Opportunities —Increasing Income and Perfecting Credit

Looking ahead and planning in advance is necessary not only in finding money to buy goods, to make investments, and to plan advertising or sales campaigns, but also and chiefly in the ordinary course of meeting your business obligations.

The necessity for planning ahead applies equally well to opportunities and to emergencies. It is one thing to see opportunities—it is another to prepare to take advantage of them. A South Dakota merchant, by planning ahead, was able to buy out the stock of a dealer in a similar line. He knew that this merchant was speculating heavily in land—that his regular business was falling off through neglect. He knew that he would either have to sell or make an assignment, so he reduced his own stock, secured a full line of credit and accumulated a surplus. When the opportunity came, he was able to take advantage of it.

In planning to meet cash needs, there are two courses

open: (1) to increase production within the business and (2) to secure additional credit. Ability to use these methods depends upon the completeness of your forecast.

There are many ways to increase production or income within a business. One method, as in the case of the hardware dealer, is to adopt a new sales scheme. A manufacturer in Texas who was facing a stringency hired an efficiency expert to go over his business. He found that on some products the firm was actually losing money, while on other lines it secured a large profit. The manufacturer immediately concentrated all his efforts upon one leading department of his plant, for he saw that he could cut the price of this article and through increased sales could more than cover the deficiency he was facing. Another manufacturer, in a similar situation, had a large stock of raw material on hand. He worked a double shift to convert this into salable goods, and for the period up to the time when his notes were due he reduced other expenses and buying. A large advertising agency which had notes due on the first of the month that it could not meet, together with the payroll, changed the pay day of the salaried employees from the first to the tenth of the month. When the need came, the change, which had long been contemplated, offered an easy solution for the problem. Another firm in need of large sums adopted a freak collection letter, consisting only of the heading and a question mark, which secured results from debtors who never gave the ordinary statements more than a glance. A jewelry house which had been idle a greater part of the dull summer seasons put in a line of souvenirs and other articles to attract the tourist trade.

These are only a few of the solutions that have been effectively used to cover foreseen stringencies. The clever manager first considers sales and advertising. He sees if the production by these means can be increased. He also tightens up on collections and restricts credit. He reduces stock to the bare necessities of the business. He endeavors to discover unprofitable departments, and does away with them. He makes additional efforts to stop leaks. Extraordinary needs are met with extraordinary actions or appeals. The first point to remember, however, is that the ability to provide for opportunities and contingencies depends upon the absolute check you have upon your business—the accuracy of advance knowledge of available resources and pending obligations.

Laying Plans for More Credit to Meet Your Future Needs for Money

An eastern manufacturer saw that in thirty days he would need twenty-five thousand dollars. He had already been refused credit by the banks, but, since the dull season was coming in his business, his only chance was to overcome their distrust. He knew that his assets—the value of his equipment alone—warranted a loan of much more than he needed. He was certain that if he could convince the bankers of business methods in his enterprise, they would agree to extend accommodations. He could borrow, but he must first re-establish his credit.

His first step was to secure the report of a public accountant. This showed that the condition of the business was sound, but that the credit standing of the firm was impaired by poor organization and management. When the report was completed, the owner of the busi-

ness completely reorganized every department of his concern. Then he went to the banker with his report, showed him how he had reformed some of his management methods and that he had ample security. The loan was granted without hesitation. By foreseeing the need for money, the owner of the business was able to put it in a condition that made his credit standing right.

What to Consider in Planning to Meet Every-day Financial Needs

The keen financial head will not only foresee and plan to meet contingencies that threaten his business existence, and opportunities for larger profit, but will also plan his financing so that he can meet his usual bills with the greatest convenience and least anxiety, without impairing his credit standing.

In planning to meet regular financial obligations, there are four points to consider:

1. Purchases. Purchases should be planned in relation to obligations. When the business is heavily burdened, it is often best to sacrifice market advantages, to purchase conservatively and to reduce stock.

2. The maturity of new obligations. By knowing the cash receipts assured at every date in question, the executive can spread out the maturity of his notes so that it will not be necessary either to put off creditors or to secure additional funds from the bank.

3. Collections. When credits extended to customers make too great inroads on the working capital, you can afford to offer discounts for cash, to put pressure on your slow-pay customers, or to arrange as a last resort for loans on the security of your accounts receivable.

4. Shortage in money markets. When money promises to become tight and discounts are beginning to

rise, arrange to have cash on hand, or to have long-time credit agreed upon beforehand. A study of threatening money conditions enables the merchant to use his credit in time to supply the needs of his business at a saving impossible if he waits until everyone is demanding accommodation.

The basis of good financing, however, is good accounting. The wise financial head first makes sure that the money facts of his business come to him regularly, automatically, accurately. Having secured this information, he can match his approaching obligations against his resources, and can foresee those unusual demands that call for increased output, reduction of expenses, and a reinforcement of credit standing.

Govern the Expense

IF HE has the proper system, the executive can scan the expense streams from the eminence of his own desk. No rivulet will be too small to see. Each entry will be itemized under its proper classification. In running through the accounts each morning, he can place his finger on items that appear too large or uncalled for, or which need explanation. He can point out the spots where expense streams can be dammed. —*Edward L. Wedeles*

CHAPTER XIV

Keeping Extra Money Busy

WHETHER idle money or idle money possibilities in any other form really exists in a business is a question of viewpoint. Many merchants let their surplus dribble away unnoticed, leaving a sense of always being pressed for funds. A great manufacturer came home from Europe to find his executives nursing a big bank balance merely for the sense of safety it gave them in his absence. "I hire you not only to make money, but to use it—to put it back at 8% in the business rather than to lock it up in the bank at 2%," was his caustic word to them.

"My store managers go up or down—put five figures of profit or only four upon the January balance sheet—just in proportion as they keep their capital turning constantly," said the head of a chain of retail stores in towns of from 10,000 to 150,000.

These statements show the attitude of the successful man towards idle money. In his case surplus funds are foreseen, eagerly seized upon and put to work as they develop. Lines which prove slow are closed out so that the cash can be put into fast sellers. Every item of equipment, ground rent and payroll not highly productive is cut off.

In every business the pendulum swings between excess receipts and excess disbursements. The publisher of a farm journal finds his advertising and subscription returns for December and January seven times as large as those for July and August, while his current expenses vary not nearly so much. The furniture house, the tailor, the manufacturer of stoves, the dealer in farm implements, have similar problems.

When, in going over his monthly balance, however, a merchant stumbles upon a $400 surplus he is in no position to make the most of it. It is only by records plus foresight, by watching money pouring in through many channels, by shutting off extravagances which follow at the heels of easy money, and by making extra efforts to "bunch" idle funds for new uses, that they can be made to pay their toll to the business.

A successful manufacturer has chosen the year 1910 as the standard or average year in his business. His daily, monthly and annual statements always compare the range of receipts and expenditures with corresponding figures for 1910.

Twenty Uses That Have Made Idle Money Pay Back Profits to Store, Office and Factory

A business whose capital runs into eight figures receives similar cash forecasts thirty and sixty days in advance. At those seasons when surplus assets appear, the management at once begins to plan the use of this extra money.

"Shall we need this balance shortly?" is the first question asked.

"Is this an actual profit item which we can afford to withdraw from our operating fund and put into fixed improvements?" is the next inquiry.

"Is there no profitable use for this surplus within our business and should we invest it as a reserve in outside securities or enterprises?" This question is taken up only after the inside needs of the business have been canvassed.

The most common surplus is that which accumulates merely for a short season and, as the records show, will soon be needed to meet bills. Short time uses which have returned good profits on extra money are:

1. To buy raw material on a low market.
2. To buy job lots for quick sale.
3. To establish a temporary branch for seasonal trade, as a summer shop at a pleasure resort.
4. To tie up by option a lease or location of which a competitor threatens to make dangerous use.
5. To manufacture, buy, or stage a sale for a special season or occasion.
6. To discount bills, or call in obligations that are drawing interest.
7. To extend extra credit to a valued customer.
8. To make up supplies or lay in equipment for the plant during dull days.

A jeweler in an Atlantic Coast city found his store and capital practically idle during eight months of the year while his trade luxuriated at seaside and mountain resorts. For three years he had seen his winter surplus eaten up by summer expenses. During the fourth winter he formed a resolution to seize his annual excess money and make it produce. His plans, laid far ahead, were to establish a branch store at a fashionable Maine resort. He took a summer lease upon space in a leading summer hotel, hired furnishings, sent down two of his salespeople and freshened his display weekly with new lines from his metropolitan store. The result was

dull season profit on what had been idle money, idle labor, idle overhead expense and idle stocks.

Idle money or the ability to "take the discount" gives the clever purchasing agent and store buyer an important advantage in the market. The merchandise manager of a great department store, when formerly buyer for the haberdashery section, often turned the department surplus in a single day. During a lull in an extraordinarily good business day, when stocks had been pulled over, he was accustomed to drive to the wholesale quarter, buy for cash an attractive lot of neckties, hosiery or hats, pile them into the cab and rush them to the store. The new merchandise freshened the display and started a new buying impulse which made the departmental balance that evening the envy of other buyers.

Business expansion ought to wait until accumulated profits or new capital warrants the move. Where such a surplus has been foreseen, however, many profitable avenues are open to its use:

1. To enlarge the factory or store.
2. To develop the manufacture or sale of a particular line, or to take on new lines.
3. To buy patents resulting in the sale of new lines.
4. To develop a special advertising and sales campaign.
5. To devise an improved delivery system.
6. To reach a new class or a new trade district.
7. To reorganize departments.
8. To open new sources of material.
9. To give the business a financial overhauling which will result in economy and better credit.
10. To develop a new system of hiring, handling and paying employees.

11. To secure real estate deeds or leases on future business sites.

12. To put on foot an investigation of conditions that threaten the prosperity of the business.

An investment in permanent improvements ought to stand this test: Does the business warrant this expansion and will it mean an improvement in credit standing or financial efficiency?

Reinvesting a Surplus for the Enlargement and Greater Stability of the Enterprise

A clever druggist planned ahead for three years and by concentrating all the surplus which rigid economy enabled him to accumulate, purchased three suburban stores at strategic points, installed motorcycle delivery and opened a plant for making his own frozen dainties. By these measures he at once put his idle money back into the business in a way which gave him trade control on an extraordinarily economical basis.

A stone cutting and sawing concern was accumulating a surplus which, month by month, mounted from 2 per cent until it promised to total 12 per cent of the capital stock. Already it had lain in bank at nominal interest for several months, when, at the sales manager's suggestion, the money was put into a branch shop in a neighboring city which offered an unusual opportunity. Operated as a branch, this required but small capital, and soon became a source of profit.

Too often extra funds blind the owner to dangers which threaten the life of the concern. The first office of profits in the wisely conducted business is to safeguard the future, not merely by contingent reserves, but also by furnishing funds for investigations and tests of better business methods.

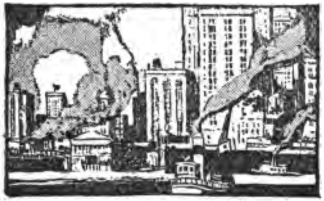
For years an ominous increase in selling expense had been cutting into the profits of a nation-wide hardware business. Finally it was voted that the semi-annual surplus be used to conduct an expert investigation of jobbing, direct selling and advertising, with comparative records over a period of three decades. These records laid a warning finger upon several lines for which the future was closing and proved by tests the growing profitable demand for other numbers.

This result illustrates the most valuable function of extra funds in your business; not merely to pay a nominal percentage in some quick turnover, but to plumb your business difficulties and opportunities, so that the first may be corrected and the business may go forward to success upon a thorough understanding of the latter.

Checking Up

EXPENSE is best controlled by centralizing its supervision. All its details should be subject to some system that reduces them to the daily scrutiny of a higher executive.

—*Edward L. Wedeles*



CHAPTER XV

Handling Reserves and Investments

FOLLOWING the panic of 1907, a firm of retail jewelers in an eastern city faced the necessity of raising a large sum in ready cash. The firm had made its usual purchases for spring payment, considering the money flurry only temporary. When spring arrived, however, the goods were still in the show cases. Moreover, several jewelry supply houses, hard pressed by their creditors, had given advance notice that they must insist upon prompt payment.

Here is a condition which, over and over, has put the label of failure upon short-sighted store and factory organizations. By patience, foresight and wise investment, however, the jewelers were prepared for precisely this emergency. From the first they had realized that in a business based upon the sale of luxuries financial stringency must mean short funds. During ten years of remunerative business, therefore, they had rigorously set aside a percentage of their profits as a reserve asset, invested in first-class bonds yielding a fair percentage and possessing unexcelled stability. Upon these securities as collateral the head of the firm easily borrowed funds sufficient to meet demands and maintain its high credit reputation.

In every line of manufacture and service like contingencies often arise which can be met only by the conserved strength of the concern itself. A mine may be flooded. A factory may be wrecked by a gas or steam explosion. There may be a disastrous strike, a crop failure, a series of losses from bad debts, a costly damage suit. Depreciation of property, redemption of bonds, the necessity to scrap old-fashioned machinery and to reorganize upon improved lines, the danger of calamity not protected by insurance—these are some of the factors, self-evident or unforeseen, which may, unexpectedly wipe out a man's capital, make it nonproductive or tie it up beyond reach when ready money means business life.

Men trained in finance and business have come upon certain definite principles, by observing which it is feasible to store up the strength of prosperous times for the "rainy day." But the accumulation of surplus funds and reserve assets, whether in the business of one thousand dollars or one million dollars capital, is a source of strength only when carefully adapted to the particular needs most likely to appear and when invested in such a way as to bring in profits, yet be ready for instant use in any emergency.

A fifty thousand dollar concern in a Wisconsin city determined that from the outset reserve assets should be set aside. The executive committee did this consistently, even in the face of bills payable which continually had to be met by bank loans.

"I understand," said the banker, "that it is your wish to operate on the most conservative basis. What you are actually doing, however, is to borrow money from us to invest in outside securities. You are letting the other man use your credit to make a profit which

you seem fearful of attempting. I shall have to insist that you put your collateral back of this loan."

The result of thus attempting to set aside reserve assets drawn from loans and working capital instead of from the profits of the business was that the reserve securities were already on the table just when the corporation, caught by a demand for cash, most needed to play them. An expert accountant has laid down the rule that capital and earnings (after providing for depreciation and obsolescence) are to be used first to supply all the permanent funds necessary for the operation of the factory or store. If, after paying the dividends properly due, profits are then sufficient, it is wise to set aside a certain portion of them as an emergency or definite purpose reserve. The objects of such a reserve may be divided under two heads:

1. A reserve may be built up to meet periodical or seasonal demands, as where the forecasting of receipts and disbursements indicates that bills may profitably be discounted with surplus funds in May and November, while later receipts will replace the reserve for future demands.

2. A reserve may be laid by blindly as insurance against unforeseen catastrophes or a financial crisis; or as a "war chest" with which to carry on operations when conditions of supply, demand and competition offer unusual opportunities.

In deciding upon and establishing reserve assets the individual merchant or manufacturer who has become expert in finance guides himself by the character and needs of his business. He considers the various situations in which a reserve would be of vital importance. He makes certain that his operating capital is sufficient and that his reserve might not better be invested to

develop his plant and trade. After studying the procedure of clever business men in his own and allied lines he calculates whether three, four or five figures will adequately take care of short-time demands and unforeseen needs. Finally he fixes upon the terms under which the reserve will be put aside and invested, so that his withdrawals will not overtax the business and will go into securities well adapted to his needs.

How to Select Investments That Will Maintain Your Surplus Intact and Ready for Instant Use

Having laid down the definite financial policy which brings your reserve to your bank book, the wise and shrewd investment of the funds demands attention.

Four general tests of an investment are laid down by men of financial acumen:

1. Are your principal and interest safe or certain to come in when due?

2. Is the net return or rate of income on the investment advantageous?

3. How does the security rank as to ease of converting it into cash and how staple is its market value in times of crisis?

4. What are the prospects of the security increasing in value?

A Georgia manufacturer whose big selling season followed cotton marketing time, invested his cash reserve in the purchase and development of an interurban suburb. The needs of the business were for a reserve which would meet expenses during the dull spring and summer seasons. The gradual depreciation of the plant, the necessity for new machinery at the end of five years and the imminence of seasons when sales would be seriously affected by drought and the ravages of the boll

weevil, constituted a grave responsibility in the use of this surplus accumulated during six prosperous seasons.

The investment, however, took the surplus out of the business and put it into another business which offered golden possibilities of increased value, but as a preliminary demanded large additional funds for development. Under the most favorable conditions, moreover, neither returns nor profitable sales could be hoped for under two years.

Instead of adding strength to his business, the executive had doubled his risk and bled his growing concern to start another. An unforeseen period of depression, coming simultaneously with irresponsible management of the real estate enterprise, affected the concern's final resource—its bank credit—so seriously that the executive suffered months of stress, and the sacrifice of his entire invested "reserve" before he brought his business to safe ground again.

By matching every proffered investment with these four tests, and with the requirements of your particular business, you may make your reserve almost absolute insurance against financial wreck. To pay for inapt advantages is a waste, for the presence in a high degree of one desirable quality always means a proportionate lack in some other advantage. The man of small capital must count safety as the prime requisite, and be contented with a smaller return. Wealthy merchants or corporations may sometimes take chances with unrecognized stocks on the chance of increased income; but the small retailer or manufacturer will remember that his securities must be "quick assets," to protect him from unforeseen money demands. Where, however, a fixed or semi-fixed investment is sought, better

interest and the promise of good increase in value may be had.

Investing a surplus calls for financial knowledge usually beyond the field of the business man himself. The expert advice of professional investors and trusted bank officials should go into the handling of your business reserve. Study and calculation of the needs of your business come first; then tests, investigation, and selection among the securities available. To get investments averaging well in respect to all four tests, keen business executives make up a list of securities to include "gilt-edged" securities on which safety and solid value as collateral compensate for the low rate of interest; lower grade bonds and stocks which pay well, but may decline in the crisis when prime bonds are at their best, and real estate or real estate mortgages and leases, affording rapid increases in value and perhaps some special advantage to the business.

Paying Dividends

FINANCIAL sagacity and control are never better evidenced than by modest living and conservative personal withdrawals by the owner of a business. Dividends ought to be kept down to amounts the enterprise can spare without hurt.

CHAPTER XVI

Where to Look for Leaks and Savings

INCREASED profits means increased sales or greater economy. The opportunity to cut costs and stop leaks belongs to every department in every business and touches economy of labor, of time, of supplies, of material, of power, of service. But the treasury of the business, that department which handles the money, uses the credit and makes permanent investments of the capital, has a chance to save, which is greater and less often turned to advantage than that of perhaps any other unit.

"To allow money to lie in bank," said the cashier of a metropolitan concern, "is to cut the firm's just profits, for the amount earned in interest will never approximate what a judicial discounting of bills will yield. Interest on a checking account is insignificant compared to discounts, which range all the way from two per cent up to the maximum of six or seven per cent sometimes offered on dry goods, jewelry, notions and merchandise lines."

Use of surplus funds or easy credit to discount bills is an elementary source of saving; yet it is often neglected or passed over as an unfamiliar operation. How

to keep check upon bills payable and discount the largest possible total of them is thus detailed by a cashier who saves hundreds of dollars to his concern monthly in this way:

"At the beginning of each month," he said, "I make a list of the bills that fall due that month, arranging them according to dates of maturity. Every fifth day I go over this list to post myself as to the cash required in order to get full advantage of discounts. If more cash receipts come in than are demanded to care for current bills, I frequently anticipate bills and pick up extra discounts. Where I can call in funds for discount use at a profit, I offer such terms as will bring the needed money at a margin."

Handling Funds and Using Credit on the Basis of Least Loss and Greatest Profits

Financial savings as contrasted with economies in other operations of a business have been worked out by skillful cashiers and executives under two heads:

A. Leaks and savings in the handling of current funds and credit.

B. Leaks and savings in the long-time investment of money within or for the business.

In either case the leak may consist (1), in a loss of actual funds in hand; (2), in keeping funds idle, which represents a loss not of capital, but of possible return thereon; or finally, (3), in the use of funds so as to earn only a low return instead of a possible higher rate.

The cashier who in his daily handling of the check book neglects to discount bills while a surplus stands to his credit in the bank, is allowing profits to leak away through idle money; or if he might negotiate a bank loan ahead of a stringency for the purpose of discount-

ing these bills when cash secures him unusual prices, he is neglecting the use of idle credit on which a profit might be earned.

Much less excusable is a loss of actual capital, disbursed without receiving an equivalent. In checking over his books the cashier of a Chicago wholesale house noticed that the charges for postage were running unusually heavy. An investigation brought out the fact that in one department the private use of stamps of the concern was responsible for a definite and by no means trifling loss of capital. Further study of the books and bills payable or paid showed that a public accountant had overstated the time spent on the installation of a new voucher system and that there was also an overcharge for warehouse storage, covering several crates which did not belong to the concern billed.

Attention to the financial mechanism of his own department thus enabled the cashier to save his firm leakage of the actual working capital. It is upon such considerations in the daily handling of interest items, discount items, overcharges, time of payment, employment of surplus and the opening of new channels of constantly higher return on the working balance, that expert financial heads of stores, offices and factories are saving their salaries five and tenfold every year.

Stopping Losses and Gearing up Profits upon Your Fixed Investment

The junior partner of a New England factory, having recently come into active control, was discussing with his board of directors a bond issue for the purpose of doubling his factory floor space, when his auditor brought out the fact that the old management had allowed the accumulation of certain stock to the amount

of nearly $200,000. This figure meant that nearly a quarter of a million dollars was constantly tied up in goods which, during the busy season, could not be consumed under ninety days. A special sales plan was developed, which cleared out nine-tenths of this slow-selling stock and at once furnished the working capital for the enlargement of the plant.

The investment of this amount constantly in stocks which were unnecessary to meet any probable demand, represented at five per cent a loss of $800 a month through idle capital and without considering the depreciation of the stock. Wherever money has been put into long-time investments, the profits it earns are a challenge to this test on the part of wideawake executives who realize the tremendous losses possible from dead inventory items, overbuying and of idle finances.

Capital may be invested for business locations, for fixtures, for equipment, for raw material, for stocks of goods, for credit afforded to customers, for advertising and selling, for overhead expenses or for securities intended to give the concern reserve strength in case of unusual need. Every one of these items may be, and in well-conducted financial divisions is being put to the threefold test already mentioned. *First,* are these funds themselves safe from actual loss; *second,* is this investment productive or idle; *third,* acknowledging that this capital is returning a profit, would it be possible to secure a higher return without sacrificing any important quality of the investment?

How to Make Comparisons Show up Leaks in the Financing of a Business

Controlling funds and investments—finding and stopping leaks—making money excel past records of

productiveness—means to classify, to tabulate and to compare the fiscal items for the day, month or year. A new business is often handicapped by ignorance and lack of data or records as to the proper amounts to be put into fixed investments or reserved as working capital; as to proper percentages on and savings in the handling of funds; as to the use of different kinds of collateral at the bank and the importance of bulk buying, as compared with discount purchases for cash. The clever business man supplies this lack through the accumlated knowledge of his banker and of credit men in firms from which he buys; through the assistance of expert auditors and the averages of good business men in competing shops or allied lines. This technical insight into financial routine he applies to the study of alternative estimates in his own financial operations, with the inevitable result that in the handling of money, as in the use of electricity or coal, savings and increased efficiency are developed.

Stop the Leaks

WASTE saps the life of a business. Detecting waste is not a matter of judgment but of system—of comparisons. Waste grows with the number of untagged items in the accounts.

CHAPTER XVII

Checking Up and Making Financial Forecasts

DETAIL was the stumbling block in the growth of the business of a large real estate dealer in a southern city. He was kept working late at night to get through the mass of detail that kept piling up with increasing confusion on his desk. Besides, he never knew exactly how he stood financially. It took hours to get the simplest facts concerning vital money matters in his business.

One night when he had just finished clearing his desk, he looked at the clock—it was almost midnight.

"Something must be wrong," he said to himself, "when I spend most of my time merely checking up business, instead of getting out and leading the sales force. My business has been my master—I must learn to master it."

That night marked the beginning of a new policy in handling the business; in calculating the records of expense, receipts, profits, obligations outstanding and amounts due; the condition of each department, the present balances and the cash that would be on hand at any time. An expert was employed who not only relieved the executive of his unproductive work, but

boiled down the details of all accounts and reports into one sheet of exact results which gave in convenient form an absolute check upon his business—that showed just where the business stood and whether it could cover the ledger liabilities. It enabled the owner to look ahead, to plan his financial moves so that capital was never

Monthly Balance of Departmental Expenses and Earnings to be Checked against Quota	President's Sales	Business Property	Acreage and North Suburban Loans	Improved Residences	West Suburbs	Interurban Addition	Farm Lands	Insurance	Rents and Leases	Odd Sales	Office Sales	Totals
Rent	15.90	15.90	15.90	15.90	15.90	15.90	15.90	15.90	7.90	32.00	7.90	175.00 175.00
Extraordinary Expense	7.24	7.24	7.24	7.24	7.24	7.24	7.24	7.24	4.04	14.50	4.04	150.00 80.50
Postage and Carfare	5.38	5.38	5.38	3.00	3.00	3.00	3.00	12.00	1.80	14.91	3.00	50.00 59.85
Incidentals	28.55	28.55	31.55	28.55	28.55	28.55	28.55	78.10	14.30	28.55	14.31	280.00 338.11
Telephone	4.23	4.23	4.23	4.23	4.23	4.23	4.23	4.23	4.23	6.58	2.40	65.00 47.05
Light	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	2.72	.98	10.50 19.45
Fuel, Water, Ice, etc.	2.46	2.46	2.46	2.46	2.46	2.46	2.46	2.46	2.46	3.83	1.40	10.50 27.37
Printing								11.50		22.25		50.00 33.75
Livery	60.96	76.20	91.44	76.20	76.20	76.20	48.77	48.77	24.38	31.27	30.48	600.00 640.87
Advertising	33.41	33.41	70.73	45.49	45.49	75.83	12.73	117.39	10.73	36.52	10.73	400.00 492.46
Signs	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	23.75	1.90	35.00 42.75
Salaries Direct	300.00	200.00	180.00	150.00	150.00	125.00	73.35	208.32	50.00	210.00		1570.83 1646.67
Administrative Salaries	64.98	64.98	64.98	64.98	64.98	64.98	64.98	64.98	36.10	129.96	36.10	650.00 722.00
Chauffeurs' Salaries	18.72	18.72	18.72	18.72	18.72	18.72	18.72	18.72	10.22		10.22	130.00 170.20
Totals	545.48	460.72	496.28	420.42	420.42	425.76	283.58	593.26	169.81	556.84	123.46	3996.60 4496.03
Earnings	25.00	820.60	1999.82	1241.56	750.00	3225.00	230.00	754.00	32.15	649.54	151.50	9879.17
Differences	520.48	359.88	1503.54	821.14	329.58	2799.24	53.58	160.74	137.66	92.70	28.04	5383.14

FORM II: This monthly statement shows how the president of a real estate company organized his office into the eleven producing departments listed across the top of the chart. The upper figure in the last column after each item is the quota laid down at the beginning of the month and was written in red ink—(here indicated by a circle about the sum). The lower figure represents the actual expenditure. Where the expense of a department exceeds earnings, the figure appears in the lower line in red. By comparison of his department column with the quota memo received at the first of the month, each department manager knows exactly how his work has measured up to requirements, and the president is able to check on every department

idle, so that his credit reputation was never impaired by failure to meet obligations when due, and so that he

could profit by every opportunity to expand his business and increase his profits.

Form II shows the proportional expense and the sales of each department. This sheet is inserted in a twelve by twelve loose leaf book, so that the executive can compare his latest returns each month with the preceding months and years. The upper figures in the last column are the estimates made at the beginning of the month on the individual items of expense. The expenses are divided between the different departments on a basis of proportion plus judgment, and each department has its quota. This quota enables the head of the department to know exactly what figure in commissions will clear his department of loss for the month. Thus the business is divided into "power units" or production units so that the executive knows at a glance what departments of his business are lagging behind and those that are adding most to his bank balance.

The real estate dealer is no longer struggling under a mass of detailed information. He has an accurate bird's-eye view of the tendencies of his business. By comparing records he can tell what he should do in the future; what will be the effect on his whole business from factors which influence only certain departments. He knows how much capital he needs to keep on reserve; how much he may safely invest. He can give his banker an accurate basis to work on, so that he has a full line of credit without endangering his business; and he knows, moreover, where to concentrate his efforts if he is obliged to make a quick increase in the production of his business.

Planning ahead for successful financing of a business cannot be done by guesswork. The value of a forecast

depends entirely upon knowledge of present and past business. The real estate dealer's plan gives this knowledge.

How a Financial Report by Percentages Makes Money Problems Plain

A large manufacturing plant keeps an elaborate series of charts to control items of expense. Forms III, IV and V give a complete record of the classified and comparative expense month by month. The totals are incorporated into the general percentage books.

The first comparative percentage book gives the percentage of expenses to sales (Form VI). If the executive, for example, desires to know the ratio of office expense to sales, he turns to the index, finds the table and running his finger along the designated lines, he sees at a glance the percentages for each month in the year. Now, turning to the yearly table, he compares the years as he did the months. Going down a line he follows the ratio the salaries bear to sales, and so on, through all the subdivisions pertaining to the expense of selling. The averages reveal immediately any incongruity or abrupt variation. When the percentage of office expense to sales is once approximately determined, he has the key to the subsequent controlling of this item.

The second comparative percentage book (Form VII) shows the ratio that each item of expense bears to the total of expense. An increase in one item is thus made conspicuous.

The third comparative percentage book gives the ratio of expense to gross profits (Form VIII). This book gives the officials a survey of the bearing of the expense account upon the business as a whole.

By means of these forms the executive has a complete daily, monthly and yearly record of his business. Expense reports reach his desk daily in two books: "General Expense, Classified," and "Sundry Expense, Classified." The daily items are condensed in the monthly percentage books and those again in the yearly percentage books.

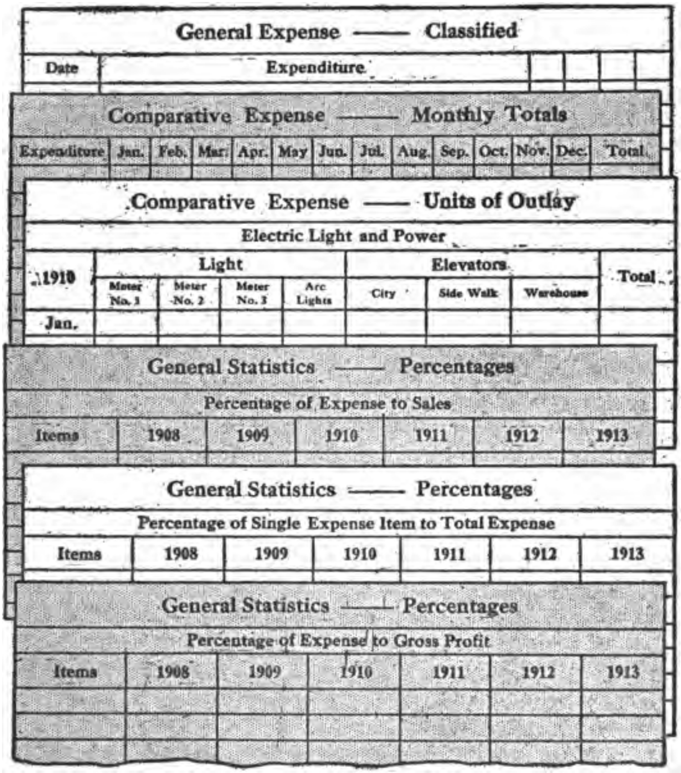
A single instance shows the value of these records. One of the electric meters showed at one time a sudden jump from twenty-three to forty dollars. This was detected as soon as the monthly comparison was made. The sudden increase was clearly due to some fault in the meter or to some inexcusable waste. The difficulty was soon located and in the succeeding month the meter had dropped to normal.

How Records and Graphs Can be Used to Aid in Financing a Business

A successful manufacturing house has organized a system of accounts so accurate that the manager is able closely to estimate the revenue and disbursements months ahead. At the beginning of each month the auditor submits a statement showing just what revenue may be expected from various sources during the ensuing thirty days. The figures are based upon averages covering the same month during several years. The total receipts under the various heads are listed daily with the aid of a cash register, and, if at the end of the first week in the month the manager sees that they are falling below the estimate, he starts a special campaign for increased business. For quick comparison of big tendencies in the business, he also has a constant graphic record prepared. This graphic or picture method is gaining ground rapidly whenever clever

financiers or executives are in control.

In plotting a graph, each square represents a certain unit of time, money or quantity. By counting the spaces



FORMS III—VIII: Six forms comparing expense in different ways that enable the executive to forecast and control the financial situation. The upper form is used for a daily report of expenses, item by item. The monthly total on each item appears in the same order on the next form. The third form shows an analysis of a single item of expense—electric lighting and power—developing specific leaks in different departments. The lower three forms are used for an annual total of each expense item, indicated as a percentage respectively of the sales total, the expense total and the gross profit

horizontally and then vertically a point is found which corresponds with the conditions to be graphically represented, and the line is made by connecting the differ-

ent points. These graphs not only save the time of the executive, but they also give warnings of new conditions and provide danger signals. The line of the graph shows the actual tendency of the business, and does this much better than a column of tabulated figures possibly could. Furthermore, these graphic records give an opportunity for comparison of results with corresponding periods of former years. The graph literally pictures these comparisons. A rise or a fall of the line shows immediately the tendency of the business and the management is able to provide in time for the conditions that the graph foreshadows.

Keeping an Accurate Check upon Your Business and Making Money Forecasts

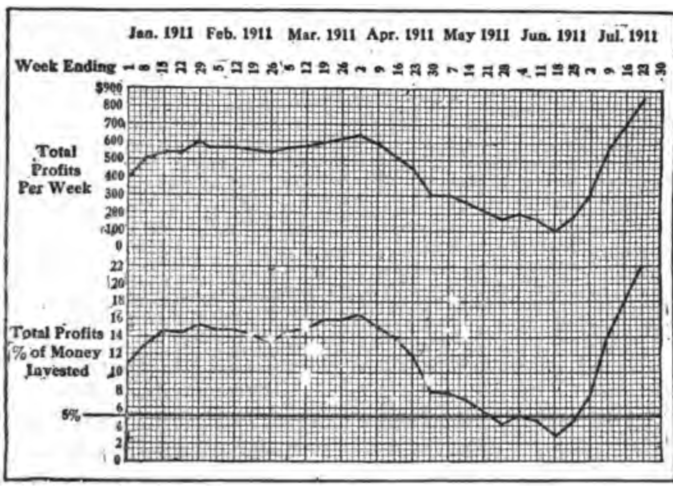
In determining the exact condition of a business the following suggestions are important:

In the first place, separate accounts should be kept of each department. By means of these accounts any department which does not pay is easily detected and may be done away with; also the effect of certain factors upon the condition of the business may be accurately determined. A record similar to that of the real estate dealer will show not only the condition of the whole business, but the actual state of each component part.

For the store, office or factory in which the employment of an expert accountant is too expensive, it is generally possible to secure an expert for two or three evenings in each month. Some methods must be found to get full and accurate statements, balance sheets and money forecasts at frequent intervals. Manufacturing plants and industries of complex and technical character should get expert reports at certain definite periods,

especially concerning deterioration and other conditions that are difficult to determine.

Graphs are easily kept and they are of great value even in the small business. They make comparison extremely simple and the factors which effect business may be isolated and thus determined. These records give warning of contingencies in time to provide for them.



This graph shows how a manufacturer has plotted his total profits by weeks and made a striking picture of the decrease in his profits during May and June from over six hundred to one hundred dollars per week, or from over sixteen per cent to less than three per cent. Such charts covering all receipts and disbursements for years are easily made and are the basis of estimates for ensuing seasons in many offices

Success in financing a business depends largely upon ability to provide for future money opportunities and emergencies. Guesswork is only self-deception. Records are the prerequisite of foresight, but this is not their only value. They enable you to secure the confidence of the banker and your creditors through your ability, knowledge and progressive spirit. They enable

you to plan ahead for emergencies and secure funds when hopes presented instead of facts are futile.

They warn against money waste and offer the basis of measures that meet the crisis. With efficient financial records, the executive needs only study and ingenuity to dominate his business and push it to solid success.

What Gains Success

BUSINESS success results from the combination of efficiency in management with wise use of capital and credit. Foresight, planning ahead to meet money demands, conscious attention to the details of credit standing, records and financial advice that show up the danger signals, courage and resourcefulness in emergencies, the maximum use of capital and credit within the bounds of safety—these are conditions that fix the bank balance, that determine the growth of a business, that make its course sure.